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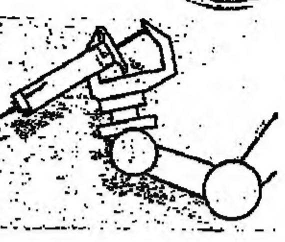

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World Business Newspaper http://www.FT.com TUESDAY FEBRUARY 3 1998

WORLD NEWS

GTech chief tried to bribe Virgin boss, UK jury rules

The reputation of GTech, the US lottery equipment supplier, suffered its most severe blow after a London jury decided its chairman Guy Snowden had attempted to bribe Richard Branson, founder of the Virgin group, in a bid to make him drop his rival bid for the UK National Lottery. The High Court jury awarded Mr Branson damages of £100,000 ($163,000). Page 15; Branson wins GTech libel action, Page 8

Italian reform doubts
Silvio Berlusconi, centre-right leader in the Italian parliament, has raised fresh doubts about plans for a new constitution by announcing he favours a return to proportional representation. Page 2

Russian court ruling
Russia's Constitutional Court has ruled the government cannot impose municipal registration, which grants or denies people permission to to live in a particular city. Page 3

Protest at Greek parliament
Several thousand protesters gathered outside the Greek parliament while legislators debated the Socialist government's proposal for curbing collective bargaining rights at loss-making state corporations. Page 3

Irish probe offshore banking
An inquiry into political donations in Ireland was extended to investigate the possible abuse of offshore banking over a 38-year period. Page 2

Israeli fears for peace process
Most Israeli Jews are convinced the peace process has come to a stop, according to polls by Tel Aviv University. Page 6

South Koreans donate $900m
South Koreans have donated gold worth about $900m after a government appeal to help bolster the country's diminishing reserves. Page 6

Jail term sought for trader
Japanese prosecutors have requested a 10-year prison sentence for Yasuo Hamanaka, former chief copper trader of Sumitomo Corp, for fraud and forgery in connection with $2.6bn in trading losses. Page 4

Australian referendum pledge
Australian prime minister John Howard pledged to hold a referendum about a republic next year if Australia's two-week constitutional convention could reach consensus on a preferred republican model. Page 4

Sri Lanka security operation
Sri Lanka has mounted an unprecedented security operation amid fears of Tamil Tiger attacks during Prince Charles' visit for the country's 50th independence anniversary celebrations. Page 6

Costa Rican opposition win
Miguel Angel Rodriguez, Costa Rica's opposition candidate has narrowly won the country's presidential elections, with 46.6 per cent of votes cast. Page 5

Con artists strike new pose
Con artists are posing as US Securities and Exchange Commission investigators in an attempt to entice more money out of victims of an international share sales scam. Page 3

Yachtswomen take on world
A multinational crew of yachtswomen skippered by Briton Tracy Edwards is attempting to sail around the world in less than 71 days. Frenchman Olivier de Kersauson set the world record in May 1997 of 71 days, 14 hours, 22 minutes and eight seconds.

BUSINESS NEWS

Bank fees for share offerings set to fall after bidding war

Fees earned for handling big European share offerings are about to hit fresh lows after a bidding war between four groups – Goldman Sachs and UBS, Credit Suisse First Boston and Deutsche Bank, HSBC and Lehman Brothers, and Schroders – to win a $2bn mandate for the flotation of Polish state telephone company Telekomunikacja Polska. Page 14

Swiss Cartel Commission blocked immediate combination of Union Bank of Switzerland and Swiss Bank Corporation domestic retail networks pending more detailed investigation. The banks' shareholders vote on the merger today and tomorrow.

Glaxo Wellcome and SmithKline Beecham shares soared as the London stock market took the first opportunity to trade in the UK's two largest pharmaceuticals companies following the merger plan they announced on Friday. Page 15; Lex, Page 14

Roche, Swiss pharmaceutical group, announced a research agreement that could bring biotechnology company DeCode Genetics of Iceland $200m over five years. Page 19

Wünsche, German group with interests from property to foodstuffs, said it was seeking to buy a controlling stake in fashion and perfume company Joop. Page 19

Commercial Union, UK composite insurer, plans to acquire German life assurer Berlinische Lebensversicherung for DM570m ($320m). Page 15

Slovak National Bank is seeking to save collapsed Investicna a Rozvojova Banka by selling the bank to state-owned insurance company Slovenska Poistovna. Page 19

Great Universal Stores, UK mail order house, paid £70m ($117m) to Société Générale of France for cheque and debit card processor SG2. Page 20

Skoda, Czech subsidiary of Volkswagen of Germany, has overtaken the Polish arm of Fiat of Italy to become central Europe's leading car producer. Page 19

Ford's Jaguar subsidiary said it would spend at least £100m ($165m) more on its X400 "small car" project in the UK than the £300m previously indicated. Page 8

Daewoo and General Motors agreed to discuss an alliance that could provide the US carmaker with access to South Korea's protected market. Page 16

Banque Nationale de Paris acquired the Greater China equity operations of Peregrine, collapsed Hong Kong-based investment bank. Page 17

Charter, UK engineering group, sold its track maintenance business, Pandrol Jackson, to US steel reclamation group Harsco for a provisional $71m. Page 20

Autoliv, Swedish-US automotive components group, said its full-year profits were held back by price competition among airbag and seat-belt makers. Page 19

Barnes & Noble, US bookseller, may set up a UK centre for its online retail operation. Page 8

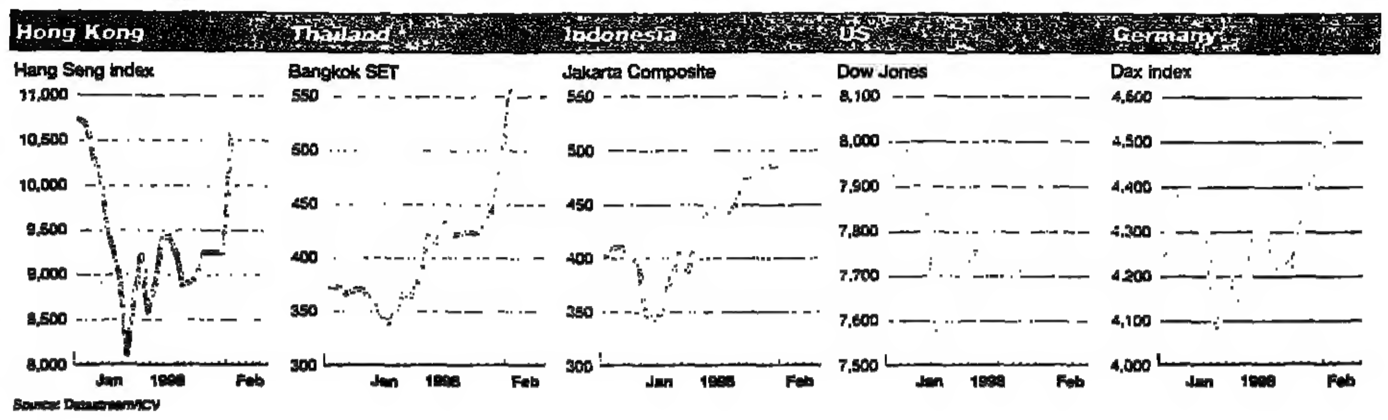
Sumitomo Bank, one of Japan's largest, is to launch a $1bn securities issue in the US. Page 15

Australia recorded its worst monthly trade deficit since June 1995, fuelling fears of a collapse in the current account deficit. Page 6

Financial markets roar into year of the tiger amid hope that crisis is easing

Asian rally lifts stocks worldwide

By Our International and Financial Staff



Source: Datastream/ICV

Asian financial markets roared into the Chinese year of the tiger yesterday as sharp rises in stocks, falling interest rates and firmer currencies signalled hopes the regional crisis was easing.

Hong Kong's benchmark Hang Seng index soared more than 14 per cent to close 1,326 points up on the first day of trading after the new year holidays.

Double-digit percentage gains were also recorded in Singapore, Bangkok, Jakarta and Manila amid heavy trading and renewed foreign buying.

The rally in Asia lifted sentiment in the European and US markets, but the main focus of investors' attention was the proposed £100bn drugs merger between Glaxo Wellcome and SmithKline Beecham.

Shares in Dublin, Frankfurt, Lisbon, Madrid, Milan, Paris and Zurich all reached record highs, with pharmaceuticals stocks leading the charge.

In London, centre of the Glaxo-SmithKline deal, the FTSE 100 index gained 140.5 to an all-time peak of 5,599.0 while the good news carried on into New York, where the Dow Jones Industrial Average quickly rose more than 150 points in early trading and the S&P 500 index briefly passed 1,000 for the first time. Despite the spectacular rallies in Asia, many commentators predicted volatility and counselled caution about prospects for further gains. "We have seen the bottom, but we may well see it again," said Marshall Mays, chief strategist at Nikko Securities Co (Asia).

Others warned that even if the worst of the financial market shocks had passed, a new phase of bankruptcies, rising unemployment and social strains lay ahead for the region.

Apart from the gains on Wall Street while many Asian markets were closed for the new year holiday, sentiment was also lifted by last week's accord on a rescheduling of Korean debt, Indonesia's announcement of banking sector reforms and Thailand's move to scrap its two-tier foreign exchange system.

Yesterday's Asian rally was supported by a strong inflow of foreign funds. "There has been a lot of foreign buying," said Ambrose Chang, chief investment officer of Daiwa Capital Management in Hong Kong. "We have seen some of the big US funds and some Europeans coming back in strength," added one Hong Kong trader.

In Indonesia, where the government last week became the first in the region to announce a debt moratorium, central bank intervention pushed up the rupiah slightly to Rp10,300 to the dollar, compared with a low of Rp16,000 in January. "The foreign reaction to last week's Indonesian package has been quite positive," said Stephen Rogers, head of research at UBS Securities.

"There's a reasonable amount of foreign buying. We know the economy is stuffed ... but we also know now that they are trying to figure things out."

Confidence was supported by falling interest rates in several markets and a strengthening in regional currencies. In Hong Kong, three-month interest rates fell from 12 per cent ahead of the new year holiday to about 10 per cent. That fuelled a surge in property and banking shares, which have borne the brunt of recent market routs. North east Asian markets were more subdued, with Tokyo's Nikkei index rising by 0.89 per cent to 16,776. The South Korean stock market, which has seen some of the biggest gains among international markets this year, fell 4 per cent on what brokers called a technical correction.

Fitch IBCA, the credit rating agency, upgraded South Korea's sovereign rating by five notches to BB+ in the wake of last week's debt agreement in New York.

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Bonds, Page 24
Currencies, Page 25
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World stocks, Page 36

Iraq and Russia to continue talks on UN stand-off

By Laura Silber, Judy Dempsey, John Kampfner and Alexander Nicoll

Russia and Iraq yesterday agreed to continue diplomatic efforts to break the deadlock over United Nations weapons inspections.

But Baghdad denied Russian reports that Iraq would allow the UN to monitor eight new sites. It also denied that Saddam Hussein, the Iraqi president, had agreed to meet Richard Butler, the chief UN weapons inspector.

William Cohen, US defence secretary, had already said that such a proposal was "not a solution" to the crisis.

Viktor Posuvalyuk, Russia's special envoy, met Mr Saddam again yesterday as part of intensified diplomatic efforts by Russia, France and Turkey to preempt a US-led military strike against Iraq. Russia's president Boris Yeltsin also spoke to President Bill Clinton to discuss the stand-off.

Sergei Yastrzhembsky, Mr Yeltsin's spokesman, said earlier that Russian diplomatic efforts had persuaded Iraq to make a "clear shift" in its position. Iraq had said it would open new sites to the UN, but that the inspectors must be accompanied by diplomats, he claimed.

But Riyad al-Qaysi, Iraq's deputy foreign minister, said Russian reports of the proposals were "totally, totally incorrect", adding: "No such thing was discussed."

The US and Britain have insisted on unrestricted, unconditional access to suspected weapons sites for UN inspectors charged with dismantling Iraq's arsenal. Madeleine Albright, US secretary of state, who is touring the Middle East, insisted Arab states did not oppose the US's tough stance towards Iraq.

"That's not true," she told reporters ahead of talks near Riyadh with Saudi crown prince Abdullah and Prince Saud al-Faisal, the foreign minister.

Kuwait was said to have agreed in principle to host US troop reinforcements in the event of a military strike.

Robin Cook, British foreign secretary, said while a diplomatic answer was still preferred, "we have not, nor will we, rule out force". He told parliament: "Without effective UN monitoring, Iraq could produce enough anthrax every week to fill two missile warheads and could, within weeks, be producing a large volume of nerve gas."

Israel meanwhile deployed Patriot missiles on a hill in the Negev desert – not far from its nuclear reactor site. Iraq fired Scud missiles at Israel in the 1991 Gulf war. But Israel said its latest move was a routine training drill.

At Britain's Permanent Joint Headquarters, near London, officers said they were ready to go into action if commanded.

A senior officer said aircraft on the carrier Invincible were ready for air strikes and that Britain, which has about 2,500 people deployed, had "further golf clubs in the bag" should they be needed.

Oil for food, Page 6
Bunker ready, Page 6
Commodities, Page 26

European talks could produce better woık conditions for 17m

By Michael Smith in Brussels

More than 17m Europeans could win improved working conditions after employer organisations agreed to negotiate with trade unions over fixed-term contracts.

Organisations that represent public and private sector employers have signalled to the European Commission their readiness to take part in talks.

Two months ago EU countries adopted a similar agreement on part-time workers, which extended rights on holidays, pensions and dismissals already enjoyed by full-time workers.

Unions hope talks will begin next month and conclude within five months for approval by EU nations this year or next.

More than 11 per cent of Europe's 148m workforce are employed on fixed-term contracts – a proportion that is growing steadily. For Spain the figure is 34 per cent. Employers argue fixed-term contracts give them flexibility, but trade unions say they often conceal poor work conditions.

Jean Lapeyre, deputy general secretary of the European Trade Union Confederation, said unions would press for fixed-term talks to cover maximum lengths of time for contracts, limits for their extension and equality of conditions with permanent employees.

Padraig Flynn, employment commissioner, said a deal would benefit both employers and workers. "We want to get away from the idea that fixed-term work is second class to permanent jobs," he said. "Employers will get more flexibility if they offer employees more security."

Negotiations would take place under the social protocol of the EU's 1992 Maastricht treaty. This makes provision for employers' and workers' representatives to reach agreements on issues that can be suggested by the Commission. EU nations can accept the agreements in full or reject them.

The part-time deal was the second to be adopted under the social protocol, following an agreement on provisions for parental leave. Mr Flynn suggested 18 months ago that discussions should take place on both part-time and fixed-term contract work, but employers

Continued on Page 14

Markets

STOCK MARKET INDICES		
New York: lunchtime		
Dow Jones Ind Av	8,084.37	(+177.87)
NASDAQ Composite	1,652.75	(+33.39)
Europe and Far East		
CAC40	3,167.50	(+15.36)
DAX	4,522.81	(+82.43)
FTSE 100	5,599.0	(+140.5)
Nikkei	16,682.92	(+54.45)
US LUNCHTIME RATES		
Federal Funds	5.56%	
3-mth Treas Bills: Yld	5.203%	
Long Bond	103¼	
Yield	5.857%	
OTHER RATES		
UK: 3-mth Interbank	7¼%	(7⅝%)
UK: 10 yr Gilt	108.5938	108.9063
France: 10 yr OAT	103.21	103.18
Germany: 10 yr Bund	106.78	106.82
Japan: 10 yr JGB	108.07	108.29
NORTH SEA OIL (Argus)		
Brent Dated	$15.17	(15.515)

GOLD		
New York: Comex		
(Feb)	$303.4	(302.9)
London:		
	$302.55	(303.05)
EXCHANGE RATES		
Dollar		
New York: lunchtime		
£	1.6373	
DM	1.819	
FFr	6.1047	
SFr	1.474	
Y	126.6	
London:		
£	1.6364	(1.635)
DM	1.8223	(1.828)
FFr	6.1083	(6.122)
SFr	1.4765	(1.4756)
Y	126.76	(125.8)
Tokyo close:		Y 126.60
Sterling		
DM	2.9819	(2.9886)

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Bank says tax collection is improving and IMF will soon approve next disbursement of loan

Russia fires blast at market sceptics

By Chrystia Freeland in Moscow

The Russian central bank yesterday stepped up its efforts to reassure nervous investors, insisting that the country's fiscal performance was improving. The bank made its upbeat comments just a few days after it raised interest rates to 42 per cent in an attempt to shore up the rouble.

Russia has come under stern scrutiny from foreign investors since emerging markets began to weaken, partly in response to the Asian crisis. Moscow's structural reforms and fiscal performance have been roundly criticised, and there has been concern in the markets that it might be forced to devalue the rouble.

Sergei Aleksashenko, deputy chairman of the central bank, sought to quell that anxiety, insisting that tax collection was improving and that the Russian government was likely to receive a fresh injection of cash soon from the International Monetary Fund. He said he expected the IMF swiftly to approve the latest $670m disbursement of Russia's $10bn loan. "We do not see any barrier to the IMF's board of directors taking a positive decision," he said.

For at least two years, the inability of the taxation service to collect revenues efficiently has been one of the biggest concerns of increasingly worried investors. But Mr Aleksashenko said that last month tax collection was 40 per cent higher than it had been in January 1997.

The news was part of an impassioned bid by the central bank to turn around sceptical market sentiment. Mr Aleksashenko admitted as much, urging western investors and reporters to "help us" and take a more positive view of Russia. He said that the country's fundamental economic indicators were as strong as they had been last year, when Russia was a darling among global emerging markets.

Mr Aleksashenko insisted that the central bank was prepared to raise interest rates even above their current highs in order to defend the currency. "To defend the rouble we are ready to raise rates further if necessary," he said.

But Mr Aleksashenko, one of Russia's most respected economic reformers, would not go so far as to offer a cast-iron guarantee of the rouble's solidity. "Never say never," he said. "A devaluation of the rouble would be possible if the population turned against the central bank. No amount of reserves would be enough then."

Although most analysts and traders remain cautious, the battered equity market yesterday offered some solace. After plunging more than 20 per cent this year, the Russian Trading System index climbed nearly 6 per cent.

CRIMEAN PROTEST AT UKRAINE 'VIOLATION' OF CITY

A storm of protest has broken out in Crimea after an attempt to put the regional city of Yalta under the direct control of the Ukrainian central government, writes Charles Clover in Kiev. Crimea is an autonomous region of Ukraine.

Late last week, President Leonid Kuchma issued a decree which installed a new temporary mayor for Yalta and effectively placed the city under the authority of the Ukrainian central government.

The presidium of the Crimean parliament yesterday passed a resolution which called the move a "violation of Crimean autonomy". Crimea is two-thirds populated by ethnic Russians, who are sensitive to attempts by the ethnic Ukrainian-dominated government in Kiev to impose central authority.

The text of the decree says that its goal is to "stabilise the socio-economic situation, restore the management of the local organs of power, strengthen the fight against crime, and guarantee the constitutional rights of the citizens of Yalta".

Surplus boost for Italy's Emu campaign

By James Blitz in Rome

Italy yesterday gave a surprising boost to its bid to join European economic and monetary union next year by announcing that its central government accounts showed an unexpectedly large surplus last month.

Despite widespread expectations in financial markets that the central government budget for January would be as much as L2,000bn ($1.1bn) in the red, the treasury posted a surplus figure of L1,300bn.

Senior treasury officials admitted they were "astonished" by the figure, which comes at a critical moment in Italy's bid to join the single currency, the euro. The comparable data for January 1997 showed a similar surplus, but one which was boosted by an exceptional contribution to the Italian exchequer of European Union funds.

Italy's EU partners had also been expecting that the January 1998 figure would be well in the red because of the temporary effects of introducing a radical new system of taxation.

According to a report prepared for a recent meeting of EU finance ministers, the Italian public finances should experience an additional shortfall of some L12,000bn in the first six months of this year after the abolition of health contributions paid by Italian companies on behalf of employees.

The shortfall will be made up only with the introduction in May of a new regional tax on enterprises, the revenues from which will be passed to health authorities. The switch to the new system will create, in the words of the report, "a short-term budgetary risk".

The treasury said yesterday that it was unclear why the scrapping of health contributions had failed to make an impact on the January figure.

A senior official said the data probably conveyed the impact of recent reductions in cash transfers to local government bodies, but warned that the figures, provided by the Bank of Italy, were "still being analysed".

Publication of the budget deficit data came at an opportune moment for the government, after new doubts among its EU neighbours about the state of Italy's finances.

Although there is growing confidence in financial markets that Italy will get the green light to join Emu in May, Theo Waigel, the German finance minister, was quoted in yesterday's Der Spiegel magazine as saying that "several questions are still open" over Italian budgetary reform.

The Italian media also suffered a crisis of nerves over Emu last weekend when Yves-Thibault de Silguy, the EU monetary commissioner, was quoted in Corriere della Sera, the Milan daily, as saying that Italy still had to answer a series of questions about its finances.

However, a spokesman for Jacques Santer, the Commission president, said last night that no additional requests were being made of the Italian authorities ahead of a Commission report on the convergence of EU states.

Berlusconi stirs reform pot

Silvio Berlusconi, the centre-right leader in the Italian parliament, has raised new doubts about plans to draw up a new constitution by announcing that he favours a return to the system of proportional representation. James Blitz reports from Rome.

The move runs counter to hopes that Italy can develop a bipolar system to bring more decisive government. Mr Berlusconi said that "a vast consensus could be found" to establish a system of PR under which parties can be represented in parliament with a minimum of 5 per cent of the vote.

Mr Berlusconi's comments are seen as an attempt to break up a growing alliance over constitutional reform between the Party of the Democratic Left (PDS) and the rightwing Alleanza Nazionale (AN).

Gianfranco Fini, the AN leader, has infuriated Mr Berlusconi by announcing that he would side with Massimo D'Alema, the PDS leader, to resist constitutional changes that would water down the powers of the magistracy.

Mr Berlusconi, who has faced a number of investigations relating to corruption allegations, is eagerly pressing for the power of the magistrates to be reduced in the new constitution.

"Berlusconi's move on electoral reform has been provoked by his fears that there will be no reform of the judiciary," said Giorgio La Malfa, a member of the governing coalition last night. "He wants to warn D'Alema that he must negotiate with him if he wants to get the reform of the Italian constitution passed by parliament."

Berlusconi: "consensus" for return to PR elections

Euro brings war of the indices

Fund managers will be looking for new European benchmarks

Preparing for Emu

Simon Davies, capital markets editor, on the development of a new Emu battle-ground

In eleven months' time, many fund managers will start to treat the bulk of Europe as their domestic market as currency differentials vanish in stock markets in up to eleven European countries. Index providers are positioning themselves to create the most visible benchmark index for the new euro zone – the countries likely to adopt the currency. Competition is hotting up for what would be a regional FTSE 100 or CAC 40.

According to Sandy Rattray, head of European equity derivatives at Goldman Sachs, 1998 will be "the year of the battle of the indices".

Asset allocation models tend to attach a high weighting to currency risk in investment portfolios. But with the arrival of the monetary union (Emu) on January 1, investors in up to eleven European countries will be able to match domestic liabilities with assets in other stock markets in the euro zone, without currency risk.

Consultants are likely to encourage cross-border diversification. Fund managers will naturally favour companies they have followed for years, so the process is likely to be more evolution than revolution.

But a Merrill Lynch survey last November found 71 per cent of managers thought Emu would make them switch from a country-based to a sectoral approach. More than half said they would change performance benchmarks.

European markets are already behaving in a pan-European manner, with performance differences reflecting the sectoral weightings of stock markets as much as the mood swings of domestic investors.

Index providers are moving in. The main contestants will be MSCI, FTSE International, which is part owned by the Financial Times, and Dow Jones, which are all developing euro zone indices. Investment banks are also likely to try their hand.

There will be two main battle-fronts. One will be the development of a retail index as the basis for futures and derivatives products, along the lines of the UK's FTSE 100.

Nick Stevenson, head of European strategy at Paribas, said: "There will be a market for a real time, ticking index that everyone talks about. But it need not be linked to the index that real fund managers use as a benchmark."

FTSE International is talking to the London International Financial Futures and Options Exchange about providing an index for futures contracts for the euro zone. This would be launched this year.

Meanwhile, Dow Jones has joined up with the German, French and Swiss stock exchanges to launch a family of indices, some of which will be used for futures and options contracts.

Mark Makepeace, managing director of FTSE International, argues: "In the retail market, Dow Jones and FTSE will have the battle – but it is also a battle between the DTB [Frankfurt's futures and options market] and Liffe."

Liffe is likely to opt for a euro zone version of the Eurotop family of indices formed by FTSE and the Amsterdam stock exchange, as well as the existing Eurotop 300 index.

Dow is expected to choose an index with just 50 constituents, making it easy to arbitrage between the contract and its underlying shares, but making it less representative of the performance of European markets. Ultimately, trading is likely to converge on one or other of the contracts.

Mr Rattray of Goldman Sachs said: "There is a battle to be the first person out there with a pan-European derivatives contract. But you suffer the risk of being out there with a product that no-one wants. There are plenty of examples of futures contracts that have failed."

It is also unclear whether investors will want an index which just includes the countries which join Emu at the outset or one which will also incorporate the UK, Sweden and other potential members. After all, UK and Swedish companies may consider trading in euros before their countries join.

The other fight will be over the indices fund managers use to benchmark their portfolios. These need to be broader and more representative of the underlying markets. This is an area where MSCI is probably the strongest, and would be expected to take a large slice of the market.

For most Anglo-Saxon investors, it is doubtful that benchmarks will be changed after Emu. It is a costly exercise, involving substantial portfolio restructuring. And outside the euro zone, Emu should have a limited impact on investment strategies.

The fight will be to entice the continental European investors who have had less contact with international index providers. FTSE and MSCI have the advantage of their track records and broader international reputation. Many strategists suggest that this is an advantage that Dow Jones will struggle to overcome.

However, European stock exchanges have traditionally provided benchmarks on the continent. They will be well placed to provide a replacement service to continental institutions, with the help of Dow.

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Irish inquiry extended to offshore accounts

By John Murray Brown in Dublin

A probe into political donations in Ireland was yesterday extended to investigate the possible abuse of offshore banking over a 38-year period.

The tribunal set up in the wake of allegations against Charles Haughey, the former prime minister, has requested all documentation related to changes in exchange controls from 1954 to 1992 when controls were lifted.

Mr Haughey is currently taking legal action to limit the scope of the tribunal.

Breaches of exchange controls were one of the issues to surface during a separate examination last year by Judge Brian McCracken into the financial affairs of Mr Haughey, who admitted to receiving I£1.3m from Ben Dunne, a retail millionaire, while Mr Haughey was prime minister in the early 1980s.

The investigation into offshore banking will centre on various tax avoidance schemes. The tribunal wants to ascertain whether changes in exchange controls were used as favours to businessmen who made political donations.

The focus will be so-called Ansbacher accounts – deposited with Ansbacher Ltd in the Cayman Islands and subsequently in Guinness & Mahon and the Irish Intercontinental Bank, two small Dublin banks.

The exact amounts involved are not known although it was originally thought I£38m was held in the Ansbacher accounts when the McCracken investigation was set up. But investigators now say as much as I£100m may have been held in the Ansbacher accounts, which were controlled by Des Traynor, Mr Haughey's former accountant.

In a parallel development, National Irish Bank, a subsidiary of National of Australia Bank, last week announced it was discontinuing one of its offshore schemes in the Isle of Man, after an investigation by Radio Telefis Eireann.

NEWS DIGEST

Germany divided on bugging law

Oskar Lafontaine, the leader of Germany's opposition Social Democrats, said yesterday he would seek changes to an eavesdropping law before a final upper house vote this week. Last month, the Bundestag, the lower house of parliament, passed the law to allow electronic surveillance in private homes as a tool against rising organised crime.

The ruling coalition was joined by just enough Social Democrats to give the measure the two-thirds majority it needed. But, haunted by memories of two German police states this century, even some members of the ruling coalition are sceptical of the law, which exempts only priests, defence lawyers and members of parliament from potential bugging.

The bill now moves to the Bundesrat, the upper house, which represents Germany's 16 states and is controlled by the centre-left Social Democrats.

Mr Lafontaine said he would try to widen the exemptions to include doctors, all lawyers and journalists from the eavesdropping. However, a majority of the Bundesrat must agree to seek the changes. *AP, Bonn*

■ GERMAN ASYLUM

Plea over Algerians rejected

Germany's regional states yesterday rejected a call to suspend the deportation of refugees from Algeria whose applications for asylum have been turned down. But at a meeting with the federal interior minister, the states' interior ministers said they would review deportations on a case-by-case basis.

Manfred Kanther, the federal minister, said no refugee whose life would be endangered by returning to Algeria would be deported. While Germany's asylum laws are laid down by Bonn, the sixteen regional states are responsible for carrying them out. The request for a suspension came from Schleswig-Holstein, which is governed by a "red-green" coalition of Social Democrats and Greens. States ruled by the Christian Democratic Union opposed a suspension. Günther Beckstein, interior minister in Bavaria and a member of the CSU, the sister party of the CDU, warned a suspension of deportations would create "a general resting place" for refugees.

Yesterday's decision was supported by the federal government. In a paper submitted by the foreign ministry, Bonn said it had no evidence of deliberate persecution by the Algerian state of people for reasons of race, religion or membership of an ethnic minority. These are the criteria for protection from deportation. *Frederick Stüdemann, Berlin*

■ FRENCH POLL

Political discontent high

The public mood in France is quickly souring, with political discontent most pronounced among Communists, the far right and independent voters, a public opinion poll suggested yesterday.

The BVA polling group said public morale had fallen to low levels seen in April 1997, when President Jacques Chirac called an early parliamentary election that his conservative allies lost. "This drop in morale corresponds to a fall in the popularity of political leaders, especially the prime minister [Lionel Jospin]," it said in a commentary. "The logical question is what impact this will have on the economy." France holds regional elections next month in the first test of support for Jospin's coalition of Socialists, Communists and Greens.

BVA said its regular survey of the public mood showed a sharp rise in discontent in recent months, with the index of satisfaction standing at 41.5 on a scale of zero to 100. The survey showed the public mood hit its lowest point in recent years during a round of strikes in December 1996, falling to about 37. It rose to almost 50 last autumn thanks to Mr Jospin's popularity. *Reuters, Paris*

■ TURKISH ISLAMISTS

Constitutional change sought

The Welfare party, the Turkish Islamist party which was closed for anti-constitutional activity last month, is to ask parliament to protect any successor party from the same fate, according to local reports. The Anatolian news agency said Welfare would seek a number of changes to the constitution this week to increase the burden of proof in a party closure case, reduce punishment for party members, and leave the final decision to parliament.

The constitutional court closed Welfare for violating Turkey's secular constitution, stripped its leader Necmettin Erbakan of his seat in parliament and barred him from political leadership for five years. Welfare deputies will become independents when the decision is officially published, probably later this month. But they will still make up the largest group in parliament.

Mr Erbakan said the Islamist cause would continue under the flag of a new party, and promised to take the case to the European Court of Human Rights. The Islamists have offered support for the Turkish government's programme in return for the passage of the legal changes they want. Talks on the deal were postponed for a public holiday last week and are expected to resume soon. *Reuters, Ankara*

■ POLAND-EU

Warsaw names negotiator

Poland is to appoint Jan Kulakowski, a 68-year-old lawyer and former secretary general of the International Labour Organisation (ILO), as its chief negotiator with the European Union. The country is due to start membership talks with the EU next month, along with four other central European states.

Mr Kulakowski, a Polish emigré under the communists, headed the country's EU embassy from 1990 to 1996 and later acted as an adviser to the state Committee for European Integration (KIE), which handles EU affairs. His formal appointment is expected on Thursday after Jerzy Buzek, the prime minister, returns from Germany.

The foreign ministry and KIE have competed over which institution will steer the negotiations. A spokeswoman at KIE said Mr Kulakowski would report to both the prime minister and to the KIE. Earlier, Jacek Saryusz Wolski, an expert on the EU and a favourite for the negotiating post, saw his candidacy founder after the government refused to accept his demand that he be independent of both the KIE and the foreign ministry. *Christopher Bobinski, Warsaw*

■ EBRD CONFERENCE

Funding for Ukraine hotels

The European Bank for Reconstruction and Development has said it will lend Ukraine money to refurbish two hotels in advance of the EBRD's annual conference, to be held in Kiev next May.

Ukrainian officials said after a weekend meeting between Charles Frank, EBRD vice-president, and Valery Pustovoitneko, Ukraine's prime minister, that Ukraine would be able to draw on an existing credit line of about $130m, meant for the development of small and medium-sized enterprises, to refurbish the Dnipro and the Andreevskaya hotels in Kiev. EBRD officials put the figure for the credits at $2m-$3m per hotel.

An estimated 4,000 people will descend on Kiev for the May 9 conference, which is held every year in a different city in eastern Europe and the former Soviet Union. *Charles Clover, Kiev*

Challenge to Azeris' iron ruler

Ex-KGB chief determined to hold on to overwhelming power in presidential polls

Heydar Aliyev, president of Azerbaijan, was virtually alone at work over the weekend, sitting in one of the few well-lit rooms of his dingy presidential building overlooking the Caspian Sea.

The former KGB chief and Soviet politburo member, a known workaholic, shows little sign of flagging despite his 74 years. In October he faces a presidential election, and shows every sign of wanting to serve a second five-year term. "If the people want me to stand, I will not refuse," he said in an interview.

Little moves in this country of 7m people without Mr Aliyev's sanction. He has overwhelming authority, if not popularity, in Azerbaijan and is presiding over an incipient oil boom.

Yet until the benefits of the vast energy reserves beneath the Caspian sea are felt by the man in the street, he will need all his legendary survival skills.

Heydar Aliyev (left). His predecessor, Abulfaz Elchibey (right), whom Mr Aliyev ousted in a coup in 1993, is back in Baku

His predecessor, Abulfaz Elchibey, whom Mr Aliyev ousted in a coup in 1993, is back in the capital, Baku, resuming political life after 4½ years in self-imposed exile in the mountainous region of Nakhichevan. At the weekend he chaired a congress of his party, the Popular Front, vowing before over 1,000 supporters that he would bid for power.

"We are going to fight for power, absolutely, we do not hide that," the former professor and Soviet-era dissident said in an interview at his headquarters. A tall dignified man, Mr Elchibey is renowned for his integrity and commitment to democracy, although his brief presidency is remembered for its chaos and military losses.

Commentators say Mr Aliyev would probably win an election if it were held tomorrow. In his five years in office, he has brought stability to the turbulent Caucasian republic and has established his newly independent country on the world stage, securing oil contracts worth $30bn with foreign companies.

Yet he has failed to keep one promise: to win a peace settlement in Nagorno-Karabakh and its surrounding districts, lost to Armenia in six debilitating years of war.

There is growing disillusionment among the country's 900,000 refugees. Many still live in poverty in tent camps and public buildings, and are losing hope they will ever return home.

Mr Aliyev is once more promising a settlement this year, even though talks are deadlocked. "We really want concrete results for a peaceful solution of the conflict in 1998," he said. Delivering on that promise will be difficult.

He is relying on more foreign investment to help Azerbaijan's economy. Foreign investment brought in $1.5bn last year, Mr Aliyev said, and he expected an increase in 1998. "It will increase the republic's revenues and we will solve social problems," he declared.

Although his government has stabilised the economy, factories remain idle and there is huge unemployment. Many Azeris live below the poverty line. A hospital doctor earns $20 a month, a government minister $40. Corruption is rife and democratic reforms painfully slow.

But Mr Aliyev has the advantage of complete control of the press and television in Azerbaijan. Censors still check every newspaper before it goes to print. Last year they removed 27 whole stories from the papers and slashed 264 others with their scissors, according to the Committee to Protect the Journalists of Azerbaijan.

Two weeks ago the authorities closed nearly 100 newspapers and several regional television stations. It was ostensibly to introduce a new registration system, but the move was seen as a warning shot to critics at the start of an election year.

Human rights organisations estimate there are 300 political prisoners in Azerbaijan, but Mr Aliyev dismissed complaints of human rights abuses and press restrictions as false. "Read our newspapers and see how they criticise our policy and scold us," he said, laughing.

He acknowledged Azerbaijan was grappling with widespread corruption. "We are fighting it but unfortunately it is not that easy to wipe out this evil," he said. His closure of Baku's casinos and nightclubs last week was a measure against "economic crime".

His attitude towards Mr Elchibey suggests he sees the former president as a serious opponent, but he cannot resist a personal swipe. "He could not survive in that post more than a year. As soon as the situation became difficult he lost the administration. He does not have the political and personal qualities to take on such a big political job."

Mr Elchibey, who has no access to national television and radio, may in the end boycott the elections. "I do not doubt that Aliyev will win," says Mr Elchibey's former strategic and economic adviser, Sabit Bagirov.

Ironically, Mr Aliyev, who promises free and fair elections, needs Mr Elchibey as an opponent. "It would be very good for Mr Aliyev if he could beat Elchibey in elections," Mr Bagirov said.

Carlotta Gall

Gaullists stay loyal to absent Chirac

By Andrew Jack in Paris

After a rousing party congress in Paris, there is little doubt about which contemporary politician best incarnates France's Rassemblement pour la République, the centre-right Gaullist movement.

It is the RPR's founder, President Jacques Chirac.

Philippe Séguin, his close ally, may have taken charge of the struggling party last year. Alain Juppé, Mr Séguin's predecessor, may have been partly rehabilitated since contributing as prime minister to the RPR's humiliating defeat in the general election last June.

But the greatest applause from the hundreds of party activists at the Porte de Versailles congress centre last weekend was for Mr Chirac, the man who founded the RPR in the same hall in 1976, and who this time was not even present.

By failing to vote clearly for a change of name for the party, they showed their lukewarm support for Mr Séguin, who had proposed the idea.

Mr Chirac has taken a back seat role at the RPR since his election to the Elysée Palace in 1995. But the continued reverence in which he is held illustrates that the RPR is less a political party with a fixed ideology than a machine to elect chosen candidates to power.

The approach is nothing new. Many of France's parties are centred more on personalities than on policies.

General Charles de Gaulle's Rassemblement du Peuple Français (RPF), which served as the inspiration for the RPR, was the perfect example. In 1946, a year before he launched his movement, he called for "an elite... well beyond all preoccupations of party and class".

Take the new "statement of values" overwhelmingly approved by activists this weekend. It calls for support for everything from the idea of the family, work and responsibility to the authority of the state, equality of opportunity and social solidarity. The fight against unemployment was frequently discussed.

> The strongest response to speakers came when they made references to the defence of France against either Europe or immigration

The problem is that many of these values could equally belong to the more pragmatic wing of France's ruling Socialist party. No surprise that Mr Séguin has been criticised in some quarters for failing to provide a sufficiently aggressive and coherent criticism of the government.

There is little doubt that the underlying message of the RPR – reflecting the views of many gathered at last weekend's meeting – is populist. The strongest response to speakers came when they made references to the defence of the French nation against either Europe or immigration.

There is some evidence the movement is beginning to endorse more liberal economic reforms. That reflects a rehabilitation within the RPR of old hands such as Edouard Balladur, the former prime minister who dared run against Mr Chirac during the 1995 presidential campaign, and of Nicolas Sarkozy, his budget minister, who supported him.

Mr Séguin recognised the forces of globalisation, and spoke out against the Socialist-led government's proposals for a 35-hour working week. He argued the UK "New Labour" prime minister, Tony Blair, had about as much in common with his French counterpart as "a bagpipe with a sperm whale."

But he was equally scathing about the risks of "savage globalisation which would transform the planet into a gigantic casino", and called for a tax on international capital movements.

No doubt thinking tactically, he welcomed François Léotard, head of the UDF coalition of centre-right parties, to the RPR's gathering. But he reiterated his opposition to a merger of the movements ahead of regional elections next month.

The comments appeared to go down relatively well with the party activists. Whether they will be so successful with the French electorate as a whole is another matter.

Greek Socialists split on limiting union rights

By Kerin Hope in Athens

Several thousand protesters gathered yesterday evening outside the Greek parliament while legislators held a stormy debate on the Socialist government's proposal for curbing collective bargaining rights at loss-making state corporations.

The proposal, aimed at improving productivity in four subsidised public enterprises, has triggered strong reactions from Greece's public sector unions and clashes between rival factions in the Socialist party. Reducing the deficits of state enterprises has become a priority as the Socialists set their sights on joining the European single currency by 2001.

Greece's recent progress towards meeting the European Union's targets on inflation and the budget deficit has been based on boosting tax revenues and maintaining a "strong drachma" policy to restrict imported inflation, rather than curbing public spending.

Several Socialist deputies threatened to break ranks and vote against the measures. But some conservative deputies were expected to back Costas Simitis, the reform-minded prime minister, in a vote seen as a test of the government's commitment to structural reform.

Pressure on the government mounted yesterday as transport unions started a third week of strikes, halting city bus services and delaying domestic and international flights by Olympic Airways, the state carrier.

The protests broadened to include farmers angered by lower EU crop subsidies. In central Greece, farmers massed tractors close to the main north-south highway, threatening to repeat a damaging blockade that caused a sharp fall in industrial output in 1996 and paralysed Greek exporters.

The confrontation with the public sector unions marks the start of a campaign to cut costs at a group of 36 state corporations, mainly utilities and transport organisations, which are to be restructured and partially privatised.

Con artists prey on victims of share scam

By Clay Harris, Banking Correspondent

Con artists are posing as US Securities and Exchange Commission investigators in an attempt to entice more money out of victims of an international share sales scam.

Their effrontery astonished the regulators investigating the case. One said: "It's incredible."

Bathgate, Dreyfus & Pierce (BDP), an Irish-registered company, sold shares in three small US companies before it was closed by Portuguese regulators in November. Many customers have not received share certificates.

The scam entered a second stage when customers were approached with offers for their shares at many times the market price. The offers are dependent on the payment of advance fees, which regulators say inevitably disappear, multiplying potential losses from the $16m already at risk.

Customers have then been contacted by men who claim to be official "international fraud investigators". The men give assurances that the offers are genuine.

Winchester Capital is one of three names being used in this phase of the scam. It has told investors to contact a man described as an "international investigation officer" for the SEC at a telephone number in Atlanta, Georgia. The number has no connection with the US agency, investigators said.

Winchester Capital has also told several customers it has been authorised by Portuguese authorities to deal with the matter. But the Portuguese financial regulator CMVM said last week that this claim was "absolutely false". Investigators have found no evidence that Winchester Capital exists.

The multi-phase scam is being investigated in at least seven countries.

Portuguese regulators have also urgently requested that one of the country's leading banks freeze BDP's accounts. Since BDP was closed, at least $80,000 has been transferred from its account at Banco Espirito Santo in Lisbon to Liechtenstein.

Russian court deals blow to curb on right to move

By Chrystia Freeland in Moscow

Municipal registration, a relic of the Soviet era which continues to restrict the freedom of movement of ordinary Russian people, received a battering from the Constitutional Court yesterday.

Municipal registration, known as the propiska system, required people to obtain a residence permit to live in a particular city.

In many Russian cities, including Moscow, the system prevails today, often distorting the labour market and creating bureaucratic nightmares for individuals choosing to move from one city to another.

In a measure praised by human rights activists, the Constitutional Court ruled the government did not have the authority either to grant or deny people permission to live in a particular city.

The Court ruled registration was permissible only if it was simply a form of "notification" of the municipal authorities.

Veronika Kutsyllo, a Russian journalist who fought and won a battle with the Moscow city government over its imposition of a steep fee for a local residence permit, welcomed the court's decision.

But she warned that in practice individuals were still likely to be forced into prolonged battle with the authorities to secure their constitutional rights.

Ms Kutsyllo warned that Russians would still have to fight it out with their municipal governments in the courts. "People will have to take the government to court; that is very difficult. Our people are not accustomed to turning to the courts, so I think the situation will remain much as it is for most."

Australia opens debate on republic

By Gwen Robinson in Canberra

Republicans dominated the first day of Australia's constitutional convention yesterday in the disused former house of parliament in Canberra. John Howard, the prime minister, gave the opening address in which he reiterated his support for retaining Britain's monarch as Australia's head of state.

But he pledged for the first time to hold a referendum about a republic next year, if the two-week convention could reach consensus on a preferred republican model. If the convention failed to agree on a single model, Mr Howard said he would hold a non-binding poll to decide on the republican question.

Howard: referendum pledge

However, he quashed speculation that such a referendum could be held concurrently with a federal election, due some time before May 1999 and possibly within the next six months.

Over the next nine working days, the 152 delegates to the convention – half elected by voluntary vote and half government-appointed – will consider various republican models as well as the central issue of whether Australia should cut its ties to Britain's monarchy.

Republican leaders claimed after the first session that a pro-republican consensus was already clear. But monarchists pointed to deep differences between various republican groups on the form of a new republic – particularly on the issue of whether a president should be popularly elected, elected by parliamentary vote or appointed by a council of eminent people.

Both monarchists and an overwhelming majority of republicans, however, rejected a proposal by one republican delegate earlier in the day to bring forward a vote on whether Australia should become a republic or retain the present system.

Singapore to loosen finance grip

By Sheila McNulty in Kuala Lumpur

Singapore yesterday unveiled wide-ranging proposals to reform its financial services sector in an attempt to compete more effectively against rival regional centres.

The authorities on the city state have been eager to eliminate barriers in the financial services sector, which accounts for about 11 per cent of the economy, to head off mounting competition from emerging markets such as Malaysia and catch up with Hong Kong.

Economists say the regional financial crisis has helped Singapore's efforts. For example, it has forced Malaysia to curb further liberalisation, setting back its attempts to become a regional financial hub.

The proposals were made by a government-appointed panel of bankers and businessmen and are designed to loosen the authorities' tight grip on the financial industry. The panel was set up last year and has since been studying measures to counter regional competition, notably from Hong Kong but also from emerging markets.

If passed into law, the panel's measures would give people more control over their investments. The panel recommends allowing individuals to invest in private funds the pension monies they are forced to placed with the Central Provident Fund, a government-run pension fund. Analysts said this represented a big boost to the pension fund industry.

Analysts said the proposals – which should be accepted by the government – would trigger the much-desired liberalisation of Singapore's financial industry. This is seen as a crucial preface to any challenge to Hong Kong, the regional financial hub.

"You wouldn't say it's a big bang, but a lot of little bangs bundled together," says Andy Tan, economist at MMS International/Standard & Poor's in Singapore. "Some of the proposals are quite substantial."

In the equity market, the proposals include: authorisation of borrowing and lending of securities; cancellation of stamp duties; and allowing listed companies to buy back their shares.

The panel suggested developing the debt and derivatives market by abolishing withholding tax on bonds and other debt and, listing a Singapore stock index on the Singapore International Monetary Exchange. The panel said the Stock Exchange of Singapore should be encouraged to initiate trading in several derivative products, and that more longer-term government bonds should be issued in an attempt to create an Asian hub for debt trading.

Economists praised the Singaporean authorities for not allowing the regional crisis to delay its reforms while other, less sound, neighbours become bogged down with solving their immediate problems.

Beijing's 'softly softly' overture strikes a flat note with Taipei

The offer of cross-straits political talks does not go far enough for China's island neighbour

A series of conciliatory overtures by China towards Taiwan in the run-up to the Chinese New Year has so far met with a cool response, with Taipei saying the gestures do not go far enough.

Beijing has offered to open cross-straits political negotiations and, in an unprecedented concession, has suggested Taipei's recognition of the authority of the People's Republic of China's central government need not be a precondition.

The overture stopped short of meeting Taipei's demand that Beijing recognise the reality of two sovereign governments. China still insists Taipei accept its "One China" principle, meaning there is only one China and Taiwan is a part of it.

Chang King-yu, Taiwan's China policy chief, welcomed Beijing's fresh approach but restated Taipei's long-standing position that the two sides should return to the technical talks broken off in 1995, before embarking on political talks.

On the Chinese side, the comments from Tang Shubei, China's chief negotiator with Taiwan, that recognition of Beijing's authority was not a precondition of talks, were followed by a further wooing editorial in the People's Daily.

The official mouthpiece of the mainland's ruling Communist party stressed the need to return to the negotiating table, promising Taiwanese interests would "never be harmed after reunification.

"Political negotiations ... are the key to promoting further development of ties between the two sides at this juncture," the People's Daily said.

Beijing suspended a dialogue with Taipei in June 1995 after Lee Teng-hui, Taiwan's president, visited the US.

Relations worsened further at the time of Taiwan's first democratic presidential election in March 1996, when China conducted war games off the Taiwanese coast, a blunt reminder Beijing would not tolerate any move towards independence by an island it has considered a renegade province since Taiwan broke with the mainland after the Communists took power in China in 1949.

The original talks, begun in 1993, had covered practical matters ranging from repatriation of hijackers to resolution of fishing disputes and handling of registered mail, but not sensitive political issues.

US officials have recently been quietly working behind the scenes to bring the two sides back to the negotiating table. China's public statements on relations with Taiwan have shown a modest but marked improvement in recent months, with increasingly frequent references to the need to resume political talks.

Since Hong Kong's return to China on July 1 1997, Beijing has sought to persuade Taiwan of the merits of the "One Country, Two Systems" formula that has enabled the former British territory to return to Chinese sovereignty while remaining responsible for governing its own economic and social affairs.

"The interests of Taiwan compatriots will never be harmed after re-unification is realised according to 'One Country, Two Systems'," the People's Daily declared.

But while Beijing presses for resumption of bilateral talks, the Chinese leadership has been irked by the growing frequency of meetings between south-east Asian government leaders and officials from Taipei.

The Chinese state media have offered a sceptical interpretation of Taiwanese offers of financial assistance to Asian economies in financial trouble, suggesting Taipei is seeking greater political support in the region in return for economic aid.

The China Daily, for example, said Taiwan's "sincerity in seeming to offer help must be suspect". The newspaper criticised the tour of four Asian countries by a senior Taiwanese official earlier this month and warned other Asian countries away from accepting financial assistance if it might "harm the all-important relationship" between China and Taiwan.

Head to head across the Taiwan Strait: Beijing's Tang Shubei (left) and his Taiwanese counterpart Chang King-yu

Reuters and AP

Diplomats in Beijing have separately reported that the Chinese government is concerned that Taiwan, which has weathered the financial turmoil in Asia comparatively well, might exploit the region's financial crisis to increase its diplomatic influence over its neighbours.

Earlier this month, China issued a public warning to Singapore not to damage the friendly Sino-Singaporean bilateral relationship by entertaining officials from Taiwan.

The Chinese government is understood to have issued similar warnings in private to the representatives of other Asian countries in Beijing, whose leaders have held informal exchanges with Taiwanese leaders this month.

However, the economic turmoil is also being viewed as a potential catalyst for an easing of cross-straits tensions.

The troubled economies elsewhere in Asia have re-inforced the long-term importance of the mainland Chinese market to Taiwanese companies and Beijing has been quick to trumpet the logic of greater economic cohesion.

The state media have re-issued their call on Taiwan to lift the ban on direct trade, transport and mail links between the island and the mainland.

"The Taiwan authorities should not let political differences interfere with economic co-operation," the People's Daily said.

Laura Tyson and James Harding

NEWS DIGEST

Koreans hand in $900m in gold

South Koreans have donated gold worth about $900m following a government appeal to help bolster the country's diminishing reserves. The success of the donation scheme has far exceeded the expectations of bankers and appears to have encouraged other Asian countries to try to imitate it.

Two weeks ago on Army Day, Thailand's armed forces formally launched a campaign to collect gold donations. So far the military claims it has collected over 30kg of gold from the public. The appeal for gold donations was led by the Housing and Commercial Bank, a semi state-owned bank based in Seoul, which recently announced the $900m figure.

The Thai government says those handing over the precious metal would be presented with a certificate and a pin. The gold will be melted down into gold bars and used to bolster reserves or be sold on the world market for hard currency. The chief government spokesman, Akapol Sorasuchart, says the government was further examining a gold-for-bonds exchange programme but he plays down expectations of South Korean-type numbers. "Its a symbolic thing," he says. "Gold is a symbol of luxury and we want to show that when the country is struggling people will give those luxuries up." *Ted Bardacke, Bangkok and William Lewis, New York*

■ South Korea reported its third consecutive monthly trade surplus in January, but economists said a surge in inflation was only the beginning of the pain that awaited the country in the months ahead. Inflation as measured by the consumer price index soared to 8.3 per cent in January from 4.7 per cent a year earlier. *Reuters, Seoul*

■ JAPAN

10-year Hamanaka jail call

Japanese prosecutors yesterday requested a 10-year prison sentence for Yasuo Hamanaka, once the leading player in the global copper markets, for fraud and forgery in connection with $2.6bn in trading losses. Mr Hamanaka, the former chief copper trader of Sumitomo Corp, was present at the Tokyo District Court session but given no opportunity to comment. He has already pleaded guilty to the charges against him.

Prosecutors said Mr Hamanaka used complex methods of fraud and forgery for more than 10 years to hide huge losses from unauthorised trades, while reaping personal gains for himself and his former boss, Saburo Shimizu.

In June 1996, Sumitomo stunned the world's metal markets by announcing huge copper trading losses, which it blamed on unauthorised deals by Mr Hamanaka. Mr Hamanaka was once known in the copper market as "Mr Five Per Cent" because he was rumoured to have controlled that much of the world's supply. His next hearing is scheduled for February 25. *Reuters, Tokyo*

■ PHILIPPINES

$3bn borrowing for reserves

The Philippines will borrow $3bn to boost its international reserves, Gabriel Singson, central bank governor, said yesterday. The bulk of the borrowings will come from a one-year $1.5bn loan syndication, in addition to a three-year club loan of up to $1bn. Following a lengthy absence from the capital markets, the central bank plans to raise about $200m with a five-year Europeso bond. "I am confident that with these measures our gross international reserves can increase substantially in the next two months," Mr Singson said. *Justin Marozzi, Manila*

■ THAILAND

Inflation increases sharply

Inflation jumped sharply in Thailand last month with the consumer price index stepping up 8.6 per cent year-on-year, its biggest monthly increase for three years. The increase, after a 7.7 per cent year-on-year increase in December, will heighten fears that there will be an inflationary backlash this year following the halving in the value of the baht since its flotation on last July.

The commerce ministry said that rising food prices – which account for just over a third of the index – were mainly responsible for the increase, up 9.7 per cent in January over the year before. *William Barnes, Bangkok*

Trading goes into deficit

By Gwen Robinson

Australia recorded its worst monthly trade deficit since June 1995 yesterday, fuelling fears of a collapse in the current account deficit. Peter Costello, Australian treasurer, said he was "surprised" by the increase in imports. Figures published yesterday by the Australian Bureau of Statistics showed the country's seasonally adjusted balance of goods and services showed a deficit of A$880m ($583m) in December, a sharp reversal from the revised $509m surplus in November.

Mr Costello said the deficit was caused by a strengthening of the economy last year, which drove a surge in imports. Imports in the period rose a monthly 12 per cent while exports fell 3 per cent. The result was more indicative of a strong domestic economy than a fallout from Asia's economic turmoil, he said.

Private economists agreed with the treasurer's prognosis, although they warned that export levels would deteriorate this year. Mr Costello noted exceptional strong factors during 1997 had helped bolster export figures last year, including the A$1.8bn sale of Australian gold reserves by the Reserve Bank of Australia and a A$500m sale of a naval frigate to New Zealand.

The government's economic forecasts for the fiscal year to June 1999 had taken Asia's downturn into account, with growth predicted to slow to 3.5 per cent in 1998-99 from 3.75 per cent in 1997-98, Mr Costello said.

Sri Lanka mounts big security drive for prince

By Amal Jayasinghe in Colombo

Sri Lanka is braced to welcome Britain's Prince Charles with an unprecedented security operation involving sealing off parts of the capital amid fears of Tamil Tiger attacks, officials said yesterday.

Thousands of heavily armed police and soldiers poured into Colombo, the capital, before the country's independence 50th anniversary celebrations at which Prince Charles is due to be the main guest, security officials said.

In spite of the extraordinary measures, the government cancelled a public reception for the British visitor on Thursday, the final day of his three-day visit, because of concerns expressed by his advance security staff.

Prince Charles' programme was drastically scaled down after a truck bombing last week in the central hill resort of Kandy, 72 miles east of Colombo. The government blamed the separatist Liberation Tigers of Tamil Eelam (LTTE) for the attack that killed 16 people and devastated the country's holiest Buddhist shrine where Prince Charles was to have attended a service.

Ceremonies were hurriedly shifted to the capital where dozens of new road blocks were set up and bunkers built overnight to secure the new venue for ceremonies opposite the national parliament tomorrow.

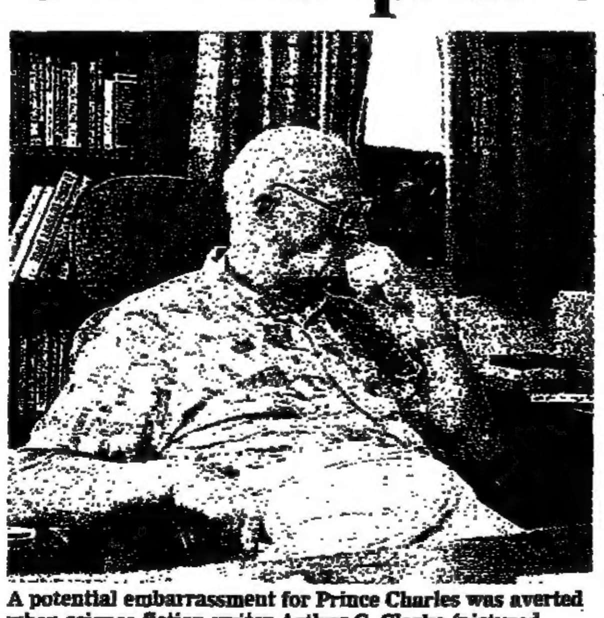
The government banned trucks and other heavy vehicles from entering the city from today to prevent another suicide bombing and ordered an extra holiday for offices in the central business district which will remain sealed off for three days.

"We have taken all possible precautions to prevent another attack," said the media minister, Mangala Samaraweera. "Of course terrorists have to be lucky only once."

On the eve of the prince's visit, heavy fighting was reported from the north of the country where the defence ministry said 350 Tamil Tiger rebels and 35 soldiers were killed.

The prince is due to open a garment factory which has British backing shortly after arriving at the Bandaranaike International airport where security was taken over by the air force last week.

Visits to a war cemetery and the botanical gardens at Peradeniya, near Kandy, where his uncle, Lord Louis Mountbatten, had his South East Asian Command headquarters until it was moved to Singapore in 1945, have been cancelled.



A potential embarrassment for Prince Charles was averted when science fiction writer Arthur C. Clarke (pictured above) asked that his investiture as a knight be postponed in view of allegations against him of a sexual nature. British officials said the request by Mr Clarke, a resident of Sri Lanka since 1956, was granted but no immediate dates were fixed for a fresh ceremony. Mr Clarke denied allegations made by a British newspaper but said he had asked Prince Charles not to conduct the ceremony of knighting him "to avoid embarrassment". AP

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

	UNITED STATES Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	JAPAN Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	GERMANY Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1987	[illegible]	100.7	103.9	98.4	76.1	101.3	92.5	103.1	100.0	122.9	100.1	95.0	107.9	107.1	110.9
1988	[illegible]	103.2	106.8	100.2	71.0	102.3	92.3	107.8	96.0	131.0	101.4	96.2	112.6	106.9	109.9
1989	[illegible]	108.5	109.9	101.9	74.9	105.1	94.2	114.0	96.8	123.5	104.2	99.3	117.1	108.0	107.5
1990	[illegible]	113.8	113.5	104.9	73.2	108.3	95.7	120.1	99.7	108.2	107.0	101.0	123.5	110.3	109.9
1991	[illegible]	116.3	117.3	108.4	74.1	111.9	96.8	124.2	103.9	113.2	110.9	103.4	131.3	109.6	107.5
1992	130.4	117.7	120.1	108.3	74.0	114.0	95.9	125.6	112.8	114.5	116.5	104.9	138.2	115.3	110.0
1993	134.3	118.2	123.1	108.8	76.4	115.4	94.3	125.8	118.8	131.9	121.7	105.1	145.8	119.4	111.3
1994	137.8	119.9	126.5	108.5	74.1	116.2	92.6	128.4	118.5	137.3	125.1	105.7	150.8	112.1	109.8
1995	141.7	122.2	129.7	108.2	68.7	115.9	92.0	132.5	115.8	138.3	127.4	107.5	155.8	110.8	114.7
1996	145.8	125.4	133.9	108.2	73.3	115.8	91.3	135.8	113.3	118.6	129.3	107.1		109.7	109.8
1997	149.2	125.9			78.6	117.4				112.8	131.5	108.2			104.6
1st qtr.1997	2.9	2.1	3.6	−0.3	77.9	0.0	−0.3	5.2	−5.0	110.0	1.7	0.6		−6.2	106.2
2nd qtr.1997	2.3	0.4	2.9	−0.8	78.1	1.5	1.7	2.9	−4.5	114.2	1.8	1.1		−5.7	104.9
3rd qtr.1997	2.2	−0.1	2.7	−1.4	79.2	1.7	1.8	2.7	−2.5	117.4	1.9	1.4		−6.2	103.3
4th qtr.1997	1.9	−0.7			80.0	2.1				109.7	1.8	1.1			103.8
January 1997	3.0	2.5	3.0	−0.2	76.5	0.0	−0.4	9.8	−6.8	111.3	1.8	0.7	n.a.	−4.9	106.7
February	3.0	2.2	3.5	−0.5	78.4	0.1	−0.3	3.1	−2.1	109.1	1.7	0.6	n.a.	−7.6	105.9
March	2.8	1.5	4.3	−0.3	79.0	0.0	−0.2	2.7	−6.0	109.4	1.5	0.7	n.a.	−5.9	105.7
April	2.5	0.8	2.8	−0.7	79.2	1.2	1.8	2.6	−3.1	109.2	1.4	0.8	n.a.	−5.9	105.3
May	2.2	0.4	3.0	−0.7	77.7	1.4	1.7	2.9	−5.1	114.3	1.6	1.1	n.a.	−4.0	105.2
June	2.3	−0.1	2.8	−0.9	77.4	1.9	1.8	3.0	−5.3	119.2	1.7	1.4	n.a.	−7.0	104.6
July	2.2	−0.2	2.5	−1.2	78.2	1.4	1.9	3.2	−3.3	119.6	1.9	1.4	n.a.	−9.3	103.4
August	2.2	−0.2	2.8	−1.6	79.7	1.6	1.7	2.9	−1.8	118.5	2.1	1.5	n.a.	−4.1	103.0
September	2.2	0.0	2.7	−1.5	79.6	2.2	1.7	1.5	−3.2	114.2	1.9	1.4	n.a.	−5.1	103.5
October	2.1	−0.2	3.5		79.1	2.4	1.5	1.5	−1.3	113.2	1.8	1.2	n.a.	−6.2	104.0
November	1.8	−0.6	3.4		79.5	2.0	1.3	0.2		108.7	1.6	1.2	n.a.		104.1
December	1.7	−1.2			81.3	1.8				106.5	1.8	1.1	n.a.		103.7

	FRANCE Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	ITALY Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	UNITED KINGDOM Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1987	105.9	98.1	107.8	103.0	104.7	111.0	102.2	111.6	105.5	102.1	107.7	104.9	116.3	106.2	94.6
1988	108.8	102.9	111.5	104.1	102.1	116.5	105.7	118.4	109.7	100.9	113.0	108.7	126.2	108.8	101.9
1989	112.6	108.2	115.8	105.2	99.7	124.2	112.0	125.6	112.3	105.1	121.8	113.9	137.2	114.1	100.5
1990	116.5	107.1	121.5	109.6	102.9	131.7	116.2	134.7	118.8	111.9	133.3	121.0	150.1	121.6	101.4
1991	120.2	105.9	127.1	113.4	100.7	140.3	120.0	147.9	129.6	113.1	141.2	127.5	162.4	127.9	104.4
1992	123.1	104.3	132.3	115.6	104.2	147.7	122.3	155.9	134.5	109.5	146.4	131.5	173.1	128.2	100.9
1993	125.6	101.6	135.6	118.1	106.6	153.9	126.9	161.6	136.9	95.2	148.7	136.7	180.9	127.6	93.1
1994	127.7	102.7	138.2		106.1	160.0	131.6	167.0	138.1	93.3	152.4	140.1	189.5	127.1	94.1
1995	130.0	109.7	141.5		106.1	168.6	142.0	172.2	138.1	90.3	157.6	146.0	198.0	131.7	90.7
1996	132.6	105.8	144.9		106.2	175.0	144.7	175.3		101.9	161.5	148.8	206.8	138.6	93.6
1997	134.2		149.0		102.1	178.2				102.6	166.5	151.6			109.3
1st qtr.1997	1.5	−2.6	3.0		103.4	2.4	0.9	3.9		104.0	2.7	1.2	4.4	3.3	105.6
2nd qtr.1997	0.9	−0.8	2.7		102.6	1.6	1.2	3.8		102.0	2.7	1.0	4.2	2.7	108.2
3rd qtr.1997	1.3	0.5	2.8		100.2	1.5	1.7	3.4		101.7	3.5	1.6	4.1	2.1	111.6
4th qtr.1997	1.2		2.8		101.9	1.6				102.6	3.7	1.0			112.0
January 1997	1.8	n.a.	n.a.	n.a.	103.3	2.6	0.9	3.9	n.a.	106.0	2.8	1.5	4.2	3.8	104.8
February	1.6	n.a.	n.a.	n.a.	103.3	2.4	0.8	3.9	n.a.	103.8	2.7	1.2	4.8	3.1	108.1
March	1.1	n.a.	n.a.	n.a.	103.8	2.2	0.9	4.0	n.a.	102.0	2.6	1.0	4.3	2.9	106.0
April	0.9	n.a.	n.a.	n.a.	103.3	1.7	[illegible]	3.9	n.a.	102.0	2.4	0.8	4.0	1.6	108.0
May	0.9	n.a.	n.a.	n.a.	102.7	1.8	1.1	3.8	n.a.	102.2	2.6	1.0	4.3	3.3	107.6
June	1.0	n.a.	n.a.	n.a.	101.6	1.4	1.6	3.7	n.a.	101.9	2.9	1.1	4.4	3.1	109.2
July	1.0	n.a.	n.a.	n.a.	99.5	1.6	1.7	3.4	n.a.	101.5	3.4	1.3	4.0	1.9	114.1
August	1.5	n.a.	n.a.	n.a.	99.9	1.5	1.7	3.4	n.a.	101.5	3.5	1.4	4.4	2.3	111.6
September	1.3	n.a.	n.a.	n.a.	101.3	1.4	1.6	3.4	n.a.	102.1	3.6	1.2	4.0	2.2	106.8
October	1.1	n.a.	n.a.	n.a.	101.7	1.6	1.6		n.a.	102.3	3.7	1.1	4.6	2.9	109.7
November	1.3	n.a.	n.a.	n.a.	102.1	1.6	1.6		n.a.	102.9	3.7	0.9	4.9	3.7	112.8
December	1.1	n.a.	n.a.	n.a.	101.9	1.5			n.a.	102.6	3.6	1.0			113.4

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources, and by J.P. Morgan, New York. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany – mining and manufacturing, other countries – manufacturing industry. Real exchange rate: J.P. Morgan real effective exchange rate index versus 18 industrial country currencies, adjusted for change in relative wholesale price of domestic manufactures. A fall in the index indicates improved international competitiveness.

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White House budget projects $65.5bn extra tobacco revenue

Clinton eyes tobacco goldmine

By Mark Suzman and Nancy Dunne in Washington

The enactment of President Bill Clinton's ambitious new social policy agenda depends in large part on a projected $65.5bn in extra revenue from the tobacco industry over the next five years.

The figure is derived from White House proposals to increase cigarette prices by at least $1.50 a pack as part of any tobacco settlement approved by Congress this year.

The funds – $9.8bn next year alone – would then be distributed across a wide variety of programmes from health to education.

But the figures are highly contentious, as well as potentially politically embarrassing for Republicans. The administration's revenue projections assume higher price increases than tobacco companies have so far agreed in their proposed $368.5bn settlement.

The industry is reluctant to agree to any deal which does not grant them immunity from a range of civil lawsuits – a condition Congress seems increasingly unwilling to grant.

However, if the settlement founders, Mr Clinton and the Democrats will be able to accuse the Republicans of allying themselves with the unpopular tobacco industry to withhold funds for social programmes in November's Congressional elections.

While some $22.3bn of the tobacco revenue would be allocated for states and help for affected tobacco farmers, the biggest single beneficiary would be medical research. The National Institutes of Health is budgeted to get $25.3bn over five years for biomedical research into cancer and other tobacco-related diseases.

A further $800m is allocated for clinical trials for patients on Medicare, the state financed health insurance scheme, and $400m to the Centres for Disease Control and Prevention. The Food and Drug Administration will receive $1.2bn, in part to help regulate nicotine.

But Mr Clinton has also allocated tobacco revenues for some strategic non-health related initiatives. He is proposing $7.5bn over five years for child care and development grants for the states, and a further $7.3bn to help hire 100,000 new teachers to help reduce class sizes.

Finally, an attempt to expand the number of lower income children enrolled in the Medicaid health insurance scheme would receive an extra $900m.

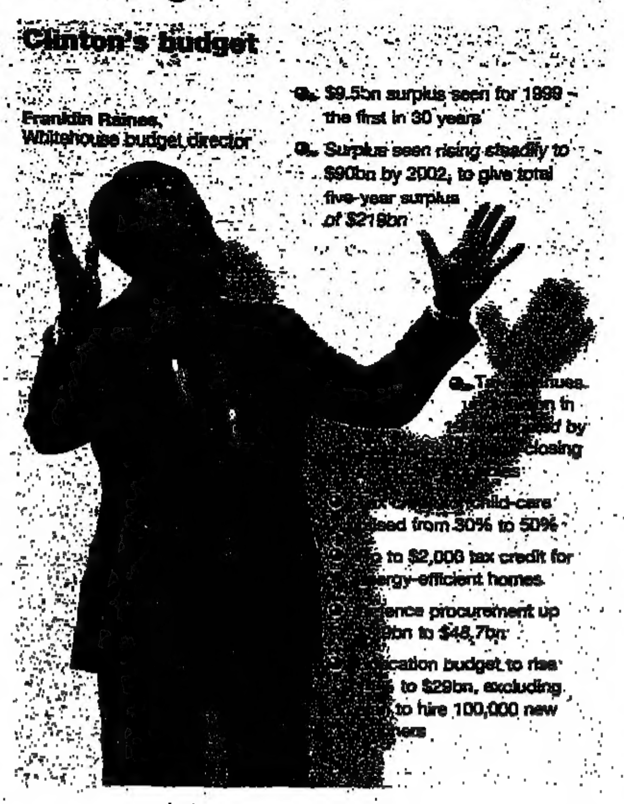
Those commitments reflect Mr Clinton's promises to focus on education and healthcare programmes. Most notable is a plan to give 55-65 year olds special access to the Medicare health insurance scheme for the elderly. This age group is not at present formally eligible for the scheme.

Education, and job training have been given a one-third increase in spending. The education department would get $34bn for fiscal 1999 to enact several ambitious programmes, including more funding for a technology literacy programme and children of migrant workers. Most likely to find favour with Republicans is a proposal to raise by 25 per cent to $100m federal support for those experimental public schools called "charter schools", which operate outside normal regulation.

The budget also proposes a childcare initiative that would provide tax breaks to help families pay for day care. Businesses would be offered tax incentives to create or expand childcare facilities and increased funding for before- and after-school programmes.

The $54.3bn budget for the agriculture department includes $535m for the restoration of food stamp benefits for legal aliens, who were cut off by the 1996 welfare reform law. It calls for $573 in user fees to cover the costs of federal food inspectors for the meat, poultry and egg industries. The USDA's Commodity Credit Corporation will make available at least $5.5bn in export credit guarantees and $200m more for guarantees to emerging markets.

Finally, the housing budget would rise from by $600m to $31.6bn. This includes subsidies for 50,000 families moving off welfare. Another $20m is set aside for public agencies working with private groups to expand housing for families in impoverished neighbourhoods.



US spending on new weaponry will edge up by $3.9bn to $48.7bn next year, under a 1999 budget presented by William Cohen, defence secretary, as a first step towards transforming the armed forces, Bruce Clark writes:

Pentagon planners hope to increase the annual procurement budget to $60bn over the next five years. They say this is the minimum needed to keep in step with technological change and avoid obsolescence.

The budget calls for defence spending authority of $271.6bn in 1999, up from $268.6bn in the current fiscal year. The total is seen rising to $288.1bn in 2002, and to $298bn in 2003.

But Mr Cohen made clear that in real terms, he expected defence spending to remain flat. The 1999 budget was in line with the Pentagon's plan to streamline logistical support and incorporate business practices in defence procurement.

Fiscal whip needed for Latin America

Even comparatively small fiscal deficits can cause problems for the continent's economies

By Stephen Fidler, Latin America Editor

Latin America's shift from dictatorship to democracy has generated some unexpected results. One is that elected governments have shown more discipline in handling their budgets than did their authoritarian predecessors.

In 1983, only four countries had fiscal deficits below 3 per cent of gross domestic product – now 16 countries do. Though some governments, such as Brazil's, still show a strong tendency to deficit spending, the average deficit in the region in 1996 was less than 2 per cent of GDP – well below industrialised country averages.

Yet fiscal deficits still present problems for Latin American economies even if their average size has fallen, according to economists from the Inter-American Development Bank. The reason is that deficits in Latin America are much more volatile than in industrialised countries; they tend to reinforce rather than counteract the swings of the economic cycle and they get bigger as elections approach.

Michael Gavin, an IADB economist, says that the problem of budget volatility stems partly from a volatile overall economic environment. Governments are also relatively small – spending roughly 25 per cent of GDP in Latin America, half that of the typical industrialised country government, reducing the room for fiscal manoeuvre.

Moreover, public spending tends to expand in good times and contract in bad, amplifying rather than absorbing shocks to the economy. This is partly because social security payments – which tend to increase as the economy slows down – are far less important in Latin America, where they comprise 9 per cent of government spending compared with 36 per cent in industrialised countries.

Meanwhile, Mr Gavin calculates that fiscal deficits are typically 1.3 percentage points larger in election years than in non-election years.

The decentralisation of government – following the inevitable centralisation under military governments – has also encouraged fiscal deficits at the central government. Ernesto Stern, another IADB economist, says that the more spending is decentralised and taxation powers are not, the greater are the incentives for regional governments to overspend.

An increasing volume of work by economists on why Latin American governments veer towards budget deficits has brought some suggestions for improvement.

Based on this work, Ricardo Hausmann, the IADB chief economist, suggested at a conference* in Paris measures to reduce the region's bias towards deficit spending.

He said budget transparency was essential. Necessary to this were independent budget scorekeepers to keep the government honest.

The executive should have the power to set the level of spending and the deficit, he said. Congress should be able to reduce overall spending, but not increase it, and to reallocate spending between items in the budget.

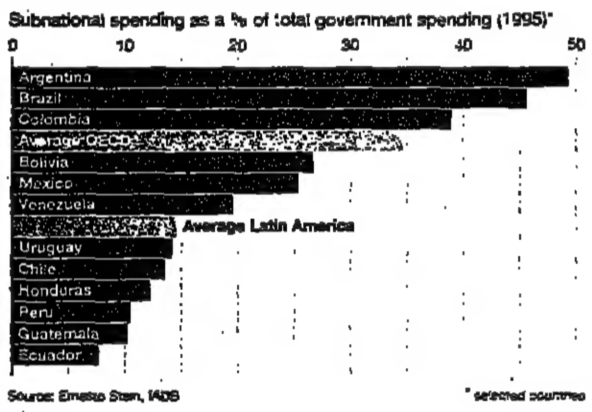
The executive should be bound by a rule that sets the maximum allowable deficit. This would encourage governments to save during booms and limit deficits at election times.

Budget constraints on regional and local governments should also be hardened. Sub-national governments should be allowed to raise taxes – such as property taxes and tolls – where they can do so efficiently. Transfers from central to local governments should be stable and avoid discretionary decision-making which encourages local governments to overspend.

Local governments' responsibilities should also be clear and not overlap with central government, while tight limits should be set on local governments' borrowing authority.

(Papers from the conference to be published in Democracy, decentralisation and deficits in Latin America by the IADB and the OECD Development Centre. OECD Publications, 2 rue André-Pascal, 75775 Paris Cedex 16)

Latin America: decentralisation



Source: Ernesto Stern, IADB

* selected countries

Slim victory for Costa Rica opposition

By James Wilson in San José

Miguel Angel Rodriguez, Costa Rica's opposition candidate, has won the country's presidential elections, but with a much narrower margin of victory than expected.

With 90 per cent of the votes from Sunday's poll counted, Mr Rodriguez of the Christian Social Unity party (PUSC), had won 46.6 per cent of the votes cast.

He was ahead of his main rival, José Miguel Corrales of the ruling National Liberation party (PLN), by 2 percentage points. Opinion polls had predicted a win by about 10 points for Mr Rodriguez.

They confirmed the public's discontent with the two principal parties, which had been evident in the high level of apathy during the campaign.

An estimated 30 per cent of the electorate stayed at home, while the array of minor presidential candidates won a combined vote of around 8 per cent, compared with around 2 per cent in 1994.

Mr Rodriguez, a 58-year-old businessman and economist, promised to work for unity. He told his supporters that he would make women, young people and the poor the focus of his government's programme.

"Since the nineteenth century Costa Ricans have been to the fore in Latin America, but we arrive at the end of the twentieth century with one in five Costa Ricans living in poverty," he said.

"Our promise to the poor is to provide the opportunities and instruments to develop."

In elections to the national assembly, the PUSC seemed set to win 29 seats, giving it a one-seat majority.

NEWS: INTERNATIONAL

Annan's proposal follows aid agencies' reports that an increase is badly needed and overdue

US backs plan to double Iraq 'oil for food' deal

By Laura Silber at the UN in New York

The US, gearing up for a military strike against Baghdad, said yesterday it would back a United Nations proposal to more than double the amount of oil Iraq is allowed to sell under a humanitarian scheme.

Kofi Annan, UN secretary-general, yesterday recommended the Security Council permit Iraq to sell \$5.2bn-worth of oil every 180 days, with \$3.55bn alloted for purchase of food and medical supplies.

Bill Richardson, US ambassador to the UN, said: "The US will support the increase". Mr Richardson was in Portugal, on a tour of capitals of the 10 non-permanent UN Security Council members to seek support for US efforts to break the deadlock with Iraq over access to suspected weapons sites.

Under the current "oil-for-food" deal, Iraq can export \$2.14bn-worth of oil, with \$1.3bn of the proceeds controlled by the UN for purchase of food and medicines, and the rest going to UN operation costs and war reparations.

Britain, which along with the US had devised the original scheme in an effort to ease the plight of the Iraqi population hard hit by sanctions, yesterday welcomed the deal.

France added its voice in support of the recommendation. "We can, as of now, express our satisfaction with Mr Annan's proposal on increasing oil exports," said Anne Gazeau-Secret, foreign ministry spokeswoman, adding: "From the start, we have been in favour of enlarging and deepening the resolution."

Baghdad has always resented the oil-for-food deal. After seven years of crippling sanctions, including an oil embargo, the Iraqi leadership sees the scheme as a device to leave sanctions in place indefinitely. Mr Annan's proposal follows reports from UN aid agencies in Iraq which said an increase was badly needed and overdue.

In his report, Mr Annan declared: "I am convinced that this sum [\$2.1bn] is inadequate to prevent further deterioration in humanitarian conditions and cannot effect the improvement in the health and nutritional status of the Iraqi population the Council hoped for when it unanimously adopted the measure." The Council endorsed the deal in December, 1996.

The report proposes an increase to 2,463 kilo-calories and 63.6 grammes of protein per person per day from the present 2,030 kilo-calories and 47 grammes of vegetable protein.

The increase would represent a 21 per cent increase in energy and a 35 per cent increase in proteins, including animal protein for the first time.

Diplomats said the proposal to expand the food basket and include a wider range of proteins would irk President Saddam Hussein. "Saddam will detest this move because it gives the UN control of food production. Chicken farms, for example, are controlled by his son," said a diplomat.

Mr Annan also suggested the current expenditure would be increased to \$60 per person per day from \$37.

Since it was introduced, Iraq in each phase of the programme has delayed pumping oil on grounds that the plan was inadequate.

Baghdad has accused the UN sanctions committee of holding up humanitarian supplies. The report, however, placed the blame on the Iraqis for delaying implementation of the scheme, saying it had an "overall impact in the slow pace of contracting, approvals and deliveries well in excess of all other causes of delay, including the consideration and approval of contracts by the Security Council Committee".

"Iraq has delayed pumping oil to draw attention to their complaints about sanctions. They place a higher priority on that, rather than getting the humanitarian programme running smoothly," said one diplomat.

Western diplomats insist the increase was not an attempt to offer Mr Saddam a carrot to back down and allow UN inspectors unrestricted access to suspected weapons sites. "There is no link between Resolution 986 and access for the UN," another diplomat said.

"The only vague link is that sanctions remain in place" until Iraq co-operates with the terms of the 1991 ceasefire agreement which calls for the UN to dismantle Iraq's arsenal of deadly weapons.

An Iraqi carries food through Baghdad's market district yesterday. The UN [illegible] increase in food aid is urgent Reuters

London bunker ready for Operation Bolton

By Alexander Nicoll, Defence Correspondent, in London

An underground bunker near Watford, north-west of London, is the nerve centre of Britain's preparations for air strikes against Saddam Hussein.

All was quiet in the operations room yesterday as diplomatic pressure appeared to have forced some concessions from the Iraqi president.

The part of the room devoted to the Gulf confrontation was not yet fully manned around the clock – perhaps indicating action against Iraq was not yet imminent.

On a huge television screen dominating the operations room, Cable News Network showed Sea Harrier jets taking off from Yeovilton, in south-west England, for the aircraft carrier Illustrious which is preparing in Gibraltar for deployment to the Gulf.

British officers briefed journalists at the Permanent Joint Headquarters with an unusual degree of openness. They explained the planning process for Operation Bolton – the name given to the activities centred around southern Iraq – as well as the machinery for co-operation between the services and with the US and other allies.

Officers admitted that "the US is the piper that calls the tune". But they saw the UK naval and air power which had already been deployed as an important political signal of intent to take part.

The aircraft carrier Invincible has been in the Gulf since January 19, where it joined the frigates Nottingham and Coventry and two auxiliary vessels. The five ships have a total complement of about 2,500 people.

The Invincible is carrying seven Royal Navy Sea Harriers, seven Royal Air Force Harrier GR7 jump-jets, and eight helicopters.

A senior officer said the Harriers were being fitted with thermal imaging laser designators – already fitted to Tornado aircraft – following a rushed procurement to meet urgent operational needs. The equipment helps in high precision bombing.

Also in the Gulf region are six Tornado GR1 fighters at Al-Kharj in Saudi Arabia, which take part in policing the southern Iraq no-fly zone, and a further [illegible] Tornado GR1s at Incir[illegible], Turkey, which operat[illegible] the northern no-fly zo[illegible]. Two tanker aircraft are [illegible]tioned in Bahrain.

"There are additio[illegible] reinforcements which [illegible] could put into theatre," [illegible] senior officer said. The ma[illegible] extra "clubs in the bag" [illegible]ld be more aircraft, wi[illegible] additional Tornados and [illegible]arriers always available at 4[illegible] hours' notice. Land forces [illegible]ould also be available, [illegible] this would depend on th[illegible] Pentagon deploying troops.

The officer said th[illegible] the US forces in the Gulf, [illegible]hich number more than 23,000, were formidable. He could not predict the action which might unfold, but it is widely expected to be on a far larger scale than previous limited strikes with guided missiles.

The extent to which British forces would be involved in any action from the outset, the officer said, would have to "be brokered between the Ministry of Defence and the Pentagon."

The objective remained to get UN weapons inspectors back into Iraq. "We are still in the process of looking for a diplomatic solution."

Israelis see peace process as 'stalled'

Poll shows that the internal religious divide is considered greatest danger to society

By Judy Dempsey in Jerusalem

Most Israeli Jews are convinced the peace process has come to a stop, according to polls by Tel Aviv University.

They also believe that Benjamin Netanyahu, the prime minister, should carry out the long-delayed troop pullbacks from the West Bank.

Although the Tami Steinmetz Centre for Peace Research has recently identified growing public disillusionment about peace negotiations, this was the first time respondents were asked directly to describe the status of the peace process between Israel and the Palestinians.

Some 75 per cent said it had "essentially stalled" while only 22.5 per cent said it was continuing. A majority was "very" or "fairly" worried.

Despite these concerns, those polled did not believe the conflict with the Palestinians posed the greatest danger to their society, with only 30 per cent regarding it as the main conflict. Instead, 60 per cent considered the internal conflicts, particularly divisions between Orthodox and secular Jews, as the most dangerous one.

The latest poll reflects the shifts in Israeli society since the signing of the Oslo peace accords in 1993. Since then the "external" threat, which served to unite Israeli society, often deflecting from internal divisions, has given way to concern about how Israeli Jews can live together.

"The schism between the Orthodox and secular overshadows all the other internal conflicts," said Tamar Hermann, who conducted the research. "But we still have the external conflict to deal with."

The secular/religious conflicts will be at the centre of a meeting today when the Orthodox Chief Rabbinate meets deputies from the Knesset's absorption committee which monitors the integration of immigrants.

The Chief Rabbinate is due in the coming weeks to deliver its verdict on the Neeman Commission. The commission, headed by Yaakov Neeman, the finance minister, sought to forge a compromise between progressive Reform, Conservative and Orthodox Rabbis over who had the right to conduct conversions to Judaism. Only Orthodox conversions are recognised in Israel. Although they are not legally binding, such conversions are crucial for those wanting to marry or be buried in Israel.

The external threat has given way to concern about how Israeli Jews can live together

Mr Neeman had proposed the setting of a conversion institute with participation by the three strands of Judaism but with the Orthodox Rabbi responsible for the final conversion. However, some Orthodox Rabbis believe once partial recognition is given to the Reform and Conservative movements, its monopoly over conversions will be gradually eroded.

NEWS: THE DAVOS SUMMIT

Be nice to your robot, it might just turn nasty...

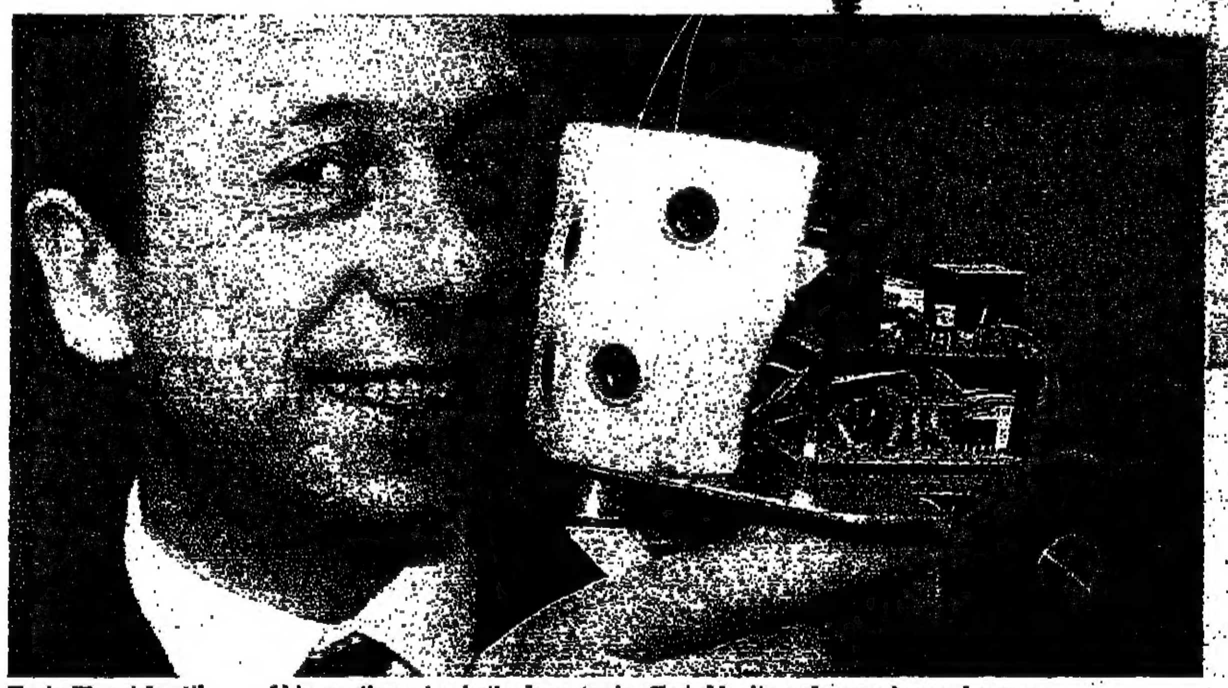
WORLD ECONOMIC FORUM

If you want to get the best out of a robot it pays to spoil it, otherwise it could turn into a nervous wreck and keep banging its head against a wall. Robots, like human beings, respond better to rewards for good behaviour and may cease to pay attention if they are punished excessively for making mistakes.

If a young robot is pushed around by other robots it may never get going, says Kevin Warwick, professor of cybernetics at Reading university, who took three of his robot pupils on their first trip to the Swiss Alps this week. Robots can learn from their mistakes, and Prof Warwick has found that constant punishment did not bring the best out of his robots which have the brainpower of a snail.

Prof Warwick's rule of thumb is two thirds reward and one third punishment if a robot is to learn how to behave quickly. His robots only wear their antennae for decorative purposes. Instead, they rely on infra-red sensors and ultrasonic signals to make their way around life's obstacles. They differ from computers in that they do not await instructions but learn as they go along. If they sense that their batteries are running down, they move to somewhere where they can recharge them.

Prof Warwick, 43, who has been described as the UK's leading robot prophet, says he never knows what his robots are going to do next after they have started interreacting with other robots. Some robots turn out to be much more forceful than other robots and it all has to do with the sort of experiences they had in the early minutes after they have been switched on.



Kevin Warwick with one of his creations. A robot's character is affected by its early experiences, he says

His current generation of robots only have the brainpower of a snail but he believes that it will not be long before robots are being built which will be far more intelligent than humans. Prof Warwick says that his robots are "nice and friendly and would not hurt or annoy anyone". But future robots could be much bigger and carry nasty weapon systems which could hurt humans. "If you put even this very small amount of learning into that type of machine, it becomes much more threatening.

"I can see no reason why in the next 20 or 30 years we are not going to have machines that are far far more intelligent than humans. The consequences of that could be pretty dire for the human race. It may well be if humans are nasty to machines they will learn to protect themselves against humans.

"We are talking about machines which can learn who they shoot at, when to shoot, and whether the target is friendly or not," says Prof Warwick.

The professor is not a sci-fi freak, but one of the world's leading experts on cybernetics. He has already built a six foot robot which is employed as a part-time fireman on the Reading university campus. Its has one eye, which is an infra-red heat detector, and is equipped with a lavatory plunger to extinguish fires after it has located them.

Not all Prof Warwick's robots live up to expectations. Last year, he entered one of his progeny into a half marathon. However, its infra-red sensors, which were supposed to help it pursue fellow marathon runners, were distracted by the bright sunlight. The robot started running towards the sun and crashed into a wall.

William Hall

Gates stays relaxed as computer chiefs split on Microsoft case

By Tony Jackson in Davos

The hot topic among leaders of the computer industry at Davos has been the Microsoft anti-trust case. Opinion on the issue has been neatly divided. Some, perhaps most, would like to see Microsoft humbled. Others are nervous about having the same principle applied to themselves.

The case hangs on whether Microsoft may incorporate an internet browser with its standard Windows software, thus threatening independent browser producers such as Netscape. Bill Gates, Microsoft's chairman, put on a relaxed front yesterday.

"The case is in some ways pretty simple," he said. "We've been adding a lot of operating features to Windows. In particular, we've been making it simpler for people to use the internet." But if he lost the case, how bad would the damage be? "I wouldn't worry too much about the effect of this case on our shareholders," he said.

What about the effect on Microsoft's public image? "Microsoft is the most admired company in America, which is terrific but slightly scary," he declared. "We have not done a good job with the [anti-trust] case of communicating what the issue is. We need to stick up for the fact that the industry shouldn't be regulated."

There was half-hearted agreement from Intel, the chip maker. Paul Otellini, vice-president, said he was instinctively unhappy about the principle of innovation being stifled. But as others pointed out, Intel is in a potentially similar position to Microsoft. If it were to add, for instance, a modem to its microprocessors, its dominance of the market would pose a huge threat to modem suppliers.

The full blast of disapproval came from Larry Ellison, chairman of Oracle and a sworn opponent of Microsoft. "Microsoft is by far the most powerful corporation on earth," he said. "What it is doing to Netscape is absolutely outrageous. Netscape made the internet accessible to all of us. Microsoft innovated nothing as far as the internet is concerned."

Nor would he accept Microsoft's argument that adding a browser to Windows is a natural next step. "Why stop there?" he asked. "When you're at your computer, you need to eat. So why not pay \$10 a day for Windows, and get three meals for free? Or since you need a roof over your head, why not pay \$20 and they give you a house?"

Let's all sing from same song sheet, says Sony president

Electronics chief calls for common global standards for computers, TV and phones

By Tony Jackson in Davos

Sony, the Japanese electronics company, yesterday called for the creation of a worldwide technical standard embracing computing, television and mobile telephony.

Nobuyuki Idei, Sony president, appealed to leading companies from those industries to get together and create a "global open architecture" which would end consumers' confusion and unproductive arguments among suppliers.

Speaking at the World Economic Forum in Davos, Mr Idei said there were 18 different formats for television in the US alone. There were also different formats for mobile telephony, for personal computers and for the set-top boxes used in the cable TV industry.

"I would like to propose an open architecture for the networked era, which would have the capacity to adapt to the next generation of products," he said. "If the architecture were open and published, anyone could write applications for it, and one application would run across all those industries."

Electronics today, he argued, was divided into four different worlds: audio-visual, dominated by Sony and Panasonic of Japan; the personal computer world, led by Microsoft, Intel and Compaq; the mobile telephony world, led by Motorola, Nokia and Ericsson; and the world of set-top boxes in the cable television industry, led by Time Warner, TeleCommunications Inc (TCI) and Deutsche Telekom.

"Those four worlds are becoming increasingly borderless," he said. "But much of the debate about this is not based on the broad benefit to society. An open architecture would clearly benefit users. From an industry view, it is necessary to ensure healthy competition among the many, rather than control by a few."

But Mr Idei's appeal was received coolly by other industry specialists. Larry Ellison, chairman of the US software company Oracle, said: "We already have the basis for an open architecture. It's called the internet."

Stephen Case, chairman of the internet provider America Online, said: "Consumers are not waiting for open architecture or new standards. They're adopting the technologies at lightning speed, and dragging the industry behind them."

'A global open architecture would end consumers' confusion'

Professor Eli Noam of Columbia University said: "I think standardisation is over-rated in a dynamic environment. It can slow down the move to newer technologies. The process of agreeing and renewing standards becomes cumbersome and politicised."

A better approach, he said, was to concentrate on developing devices which could translate from one standard to another. In the US, he pointed out, there were at present four different standards for mobile phones. However, devices were emerging which allowed them to talk to each other.

NEWS: WORLD TRADE

Dhaka may sell surplus gas to India

By Peter Montagnon, Asia Editor, in London

Bangladesh will consider selling surplus gas from its vast reserves to India once it has built up sufficient production to satisfy its own domestic needs, according to Farooq Sobhan, new chairman of the country's Board of Investment.

His remarks will reassure energy companies vying for licences to develop the country's gas reserves, believed to be bigger than Qatar's offshore fields. But successful exploitation depends on secure export markets amid lingering concerns Bangladesh will remain reluctant for political reasons to sanction sales to India.

However, Mr Sobhan said any decision on exports would be taken on purely commercial reasons.

The government is already looking at a range of options for dealing with surplus gas, including power generation for export, production of urea fertiliser, and a liquid natural gas plant.

"Within that framework we would certainly look at the prospect of exporting gas to India," Mr Sobhan said. One advantage would be that it would help balance Bangladesh's large trade deficit with India.

Long-delayed licences to gas companies to explore and develop Bangladesh's gas fields should be awarded later this month, Mr Sobhan added, paving the way for a sharp increase in total foreign investment inflows which could rise to about \$1.5bn next year from an estimated \$1bn in 1998.

Mr Sobhan stressed Bangladesh wanted to secure foreign investment in other areas, including textiles, computer software, leather and food processing.

He acknowledged criticism that Bangladesh's weak infrastructure, red tape and past political turbulence had been a deterrent to investment. But the country was now working hard to improve its infrastructure.

It would instal an additional MW700 this year, largely by commissioning generating units moored on barges, and was negotiating several highway and transport projects on a build-operate-transfer basis. These included a new highway from Dhaka to the main port city of Chittagong, and new container terminals.

One reason for focusing on investment in textiles was that 90 per cent of the fabric used in Bangladeshi garment export was imported. Local fabric production would help boost the country's overall trade position.

US comes off best in open skies scrap

Washington's aviation deal with Japan will give American airlines a chance to exploit their cost advantage, writes Michiyo Nakamoto

Japan's transport authorities are in self-congratulatory mood, applauding themselves for securing the weekend aviation deal with the US without giving in to US pressure for a full "open skies" pact.

Announcing the deal, Takao Fujii, Japan's transport minister, hailed the four-year agreement as a major step towards correcting the imbalance in the two countries' bilateral aviation accord for the first time since 1952.

But for Japanese airlines, the agreement is hardly a victory. It will do much to expand the \$10bn market for international air travel between the two countries and beyond, but it is US airlines that are likely to take the lion's share of that growth.

In sharp contrast to the positive view expressed by Japan's authorities, industry officials are alarmed by how much the ministry has given away in terms of access to one of the world's most lucrative and promising growth markets.

In an unusual act of public criticism, Akira Kondo, the mild-mannered president of JAL, said the deal was "a big disappointment". According to the Japanese carrier, the deal gave away much more to the US than it achieved for Japanese airlines.

All Nippon Airways was also guarded in its enthusiasm. While the company greeted the agreement as a long-awaited move to put it at the same starting point as its competitors, it admitted that the deal would mean intensified competition from US carriers.

Industry analysts are also wary of the impact the agreement is likely to have on the Japanese industry. "It's a win-lose situation with the US winning and the Japanese losing," says Paul Smith, industry analyst at HSBC James Capel in Tokyo.

Under the new agreement ANA, a predominantly passenger airline, and Nippon Air Cargo, a cargo carrier, will gain expanded rights to fly between Japan and the US and from the US to third destinations. JAL will also be able to open new routes and increase frequencies on previously restricted ones.

US carriers will have greatly expand rights to fly between the two countries. In addition to expanded rights for the three incumbent carriers, United Airlines, Northwest Airlines and Federal Express, non-incumbent carriers will be able to add up to 90 more flights.

The problem is a lack of slots at Narita airport which makes it virtually impossible for carriers to add a new flight out of Japan's most important gateway to the world without terminating an already existing one.

Three US airlines, Delta, American and Continental, are believed to be negotiating with Federal Express for the use of some of its unused slots. For Japanese airlines, as well as the many airlines that have been waiting for slots at Narita for years, the move by the US airlines represents a breach of newly established Japanese rules that unused slots must be given back to be redistributed in a fair and transparent manner.

JAL complains that US airlines should not be given additional slots at Narita when they already have a disproportionately large share of slots at 34 per cent.

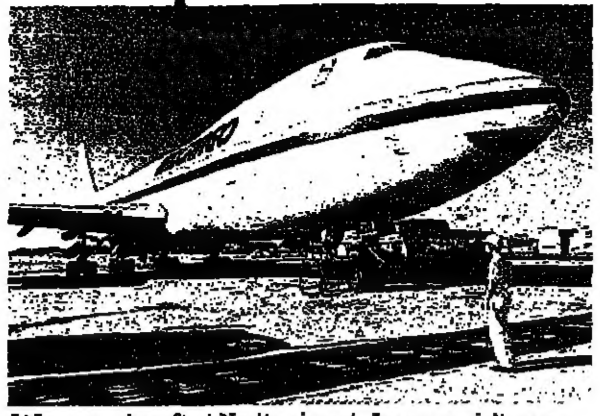
But even without the slot problem, longer term, when a new runway opens at Narita, Japanese airlines are likely to find it difficult to compete in a vastly deregulated market against US airlines.

The costs carried by Japanese airlines are between 55 per cent and 60 per cent higher than those carried by US airlines, said Mr Smith. The average cost for the top 10 US carriers is 8.9 cents per available seat mile, compared with an estimated 11.9 cents for JAL and 14.3 cents for ANA.

The difference in competitiveness is already evident in transpacific market share. US carriers already have 66 per cent of the market, with 350 weekly flights, compared with the Japanese carriers' 34 per cent market share with 192 flights a week, according to the Ministry of Transport.

The situation is similar in the air cargo market, where US carriers have a 54 per cent share against 46 per cent for Japanese carriers.

"The new deal will lead to much more competition and much more capacity. I wonder whether the Japanese companies will be able to sustain profits at lower price levels," says Laurent Del Grande, industry analyst at Dresdner Kleinwort Benson in Tokyo.



JAL cargo aircraft at Narita airport. Japanese airlines say the US has too many slots — Glyn Genin

Of particular concern is the agreement to allow unrestricted beyond rights to incumbent carriers. The US has already benefited handsomely from existing beyond rights that allows incumbent carriers to fly from the US to Japan, pick up passengers or cargo and fly on to a third country.

The new agreement is a blow to Japanese carriers because it gives US carriers open access to the Asian market from Japan. In spite of the region's recent economic woes, "in the longer term this is one of the few markets in which structural growth in traffic is still expected to take place," Mr Del Grande said.

In return Japanese carriers have obtained beyond rights that pale by comparison. The right to fly from the US to Europe is not included in the latest agreement. Flying from the US to South America is a possibility but hardly offers the opportunities seen in the intra-Asian market.

The Japanese industry does not have much time to prepare for intensified battle over the air. And, after the four year agreement runs out, they can only look forward to further liberalisation down the line.

NEWS DIGEST

Colombia fears FTAA delay

Colombia's foreign minister said yesterday the failure of the US administration to achieve fast track negotiating authority would make it difficult to negotiate a free trade accord for the western hemisphere by 2005. This was the target date set by hemispheric leaders at the 1994 Miami summit for negotiating the Free Trade Area of the Americas.

Maria Emma Mejía said that when the leaders met again at the Santiago summit in April they would decide upon a plan to advance the FTAA. This could envisage negotiations, for example, on "limited scope" agreements covering one or more aspects of trade and investment related themes.

Ms Mejía said the withdrawal of the US administration's request to Congress for fast track authority meant there would be less political urgency behind negotiations on a free trade agreement between the Andean Community, which includes Colombia, and Mercosur, led by Brazil and Argentina.

In any case, economic integration within Latin America – marked by increased trade and investment – was advancing at a faster pace than formal arrangements, she said.

Stephen Fidler, Latin America Editor

■ CRUISE SHIP

Kvaerner wins further order

Kvaerner, the Anglo-Norwegian engineering and construction group, yesterday announced it had won a \$500m order to build a cruise ship for Royal Caribbean Cruise Lines of the US.

It was the second big cruise ship order that Kvaerner had won in the space of a week. Last week it secured a \$390m order from Carnival of the US.

Kvaerner added that Royal Caribbean had ordered a third "Eagle" class vessel from its Kvaerner Masa subsidiary in Turku, Finland. The ship, due to be delivered in 2002, will weigh 136,000 tonnes, making it one of the world's largest cruise liners.

Tim Burt, Stockholm

■ CAIRNS GROUP

S Africa joins farm lobby

South Africa has joined the Cairns Group, an international organisation which lobbies for the reform of world agricultural trade, Australia's Department of Foreign Affairs and Trade said yesterday.

South Africa is the first African country to join the Cairns Group. It will be formally welcomed at the 12th Cairns Group ministerial meeting in Sydney in April.

The foreign affairs department added that Hungary had withdrawn from the group in order to start negotiations to join the European Union. The Cairns Group claims that EU policies distort trade.

The Cairns Group was formed by Australia in 1986. It has 15 members – Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Indonesia, Malaysia, New Zealand, Paraguay, the Philippines, South Africa, Thailand and Uruguay.

Reuters, Canberra

■ INVESTMENT ACCORD

Opposition mounts in US

Opposition in the US is mounting against the Multilateral Agreement on Investment to be negotiated by the OECD this month in Paris. Consumer, environmental, labour and small business groups are voicing their concern over an accord they believe eliminates governments' ability to regulate international investment.

While some business leaders fear the agreement would impose stricter labour and environmental standards, other opponents predict the MAI may supersede more protective US labour and environmental laws and regulations.

Under the MAI, federal, state and local laws and governmental powers will be jeopardised with regard to economic sanctions, investment incentives and performance requirements, as well as environmental and labour concerns, according to Public Citizen, a consumer advocacy group.

In addition, opponents argues that foreign investors and private corporations would be granted unprecedented powers to sue governments and seek compensation.

The 29 members of the OECD began negotiations over two years ago and are expected to conclude discussions in April.

Heather Bourbeau, Washington

Rail infrastructure group has proposals for staged construction

Hope for route to France

By Charles Batchelor, Charis Gresser and George Parker

Railtrack is seeking early talks with the government over proposals for the £3bn ($5bn) high-speed rail link from London to the Channel tunnel which could involve building the line in stages. Railtrack is the privatised owner of the infrastructure of most of the UK rail network.

It wants to delay construction of the most expensive tunnelling sections near London until passenger revenues have built up. But this could hold up completion of the project for 10 years beyond the original completion date of 2003.

In the weeks before its plans collapsed, London & Continental Railways said a phased construction was forbidden by the legislation authorising the link. Railtrack has asked its advisers to study the legislation to see if a phasing of the link would be acceptable to the government. But officials at the transport department said the Channel Tunnel Rail Link Act required the route to be completed in its entirety. Any change would require primary legislation.

Railtrack's directors met yesterday for the first time since the collapse of LCR's plans and ordered a detailed review of the passenger and profits figures revealed by LCR last week. "We are determined to get involved if there is a role for us," Railtrack said.

"There is a railway to be built here and we would like to build it. We don't want to be portrayed as waiting in the wings watching the death throes of the project."

Railtrack is keen to take over the construction and operation of the 110km link, but wants a train operating company similar to those which run the former state-owned British Rail lines to manage the Eurostar passenger train service between Paris, Brussels and London.

Railtrack said it wanted a single operator for the Eurostar trains rather than the consortium which existed under LCR because this would allow a more effective marketing of the service. LCR was riven by disputes between the consortium members which led to the subsequent withdrawal of several senior marketing executives brought in by Virgin.

National Express, an LCR shareholder, plans to hold talks with Railtrack in the hope the two can present an attractive package to the government.

Richard Branson's Virgin group is also likely to pitch its case to Railtrack in the near future.

Railtrack shares rose again yesterday by 13 pence to 986½ pence in London.

In the City, advisers said the government decision to refuse more subsidy was right but the sudden public collapse of LCR's plans might damage Labour's plans to win private sector finance for large infrastructure projects. "If the government had been closer to the project it might have been possible to predict events better," said one banker.

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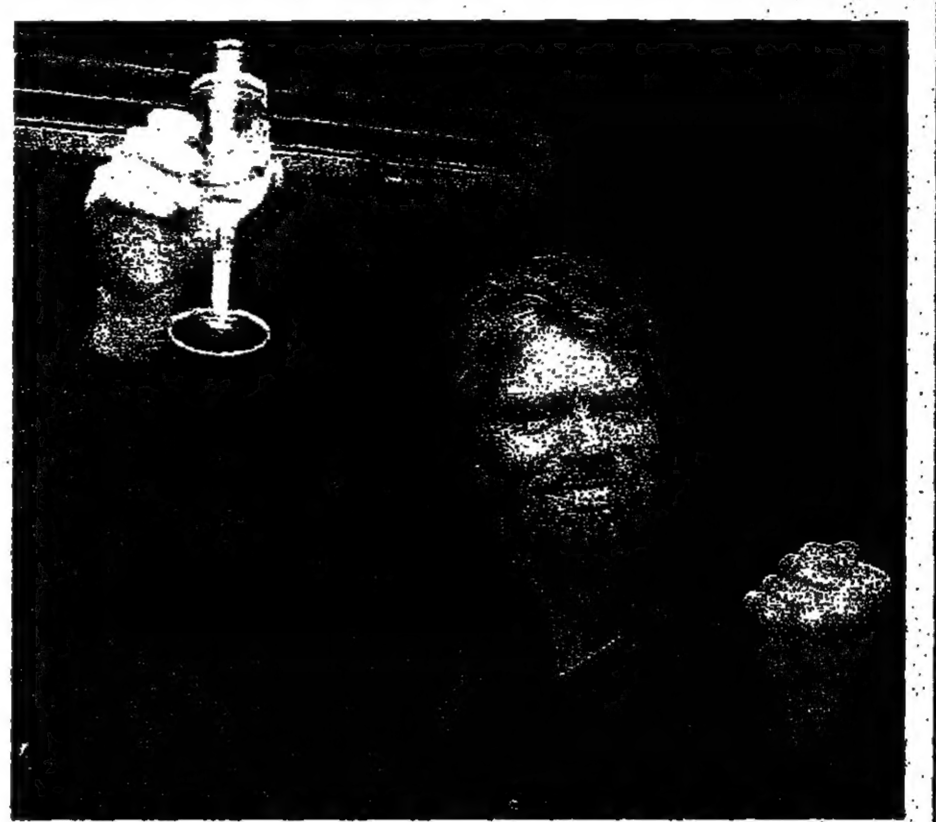
Jury deals a blow to gaming industry giant

By John Mason in London and Richard Tomkins in New York

The London jury's verdict marks the first serious blow to the reputation and integrity of the world's biggest supplier of lottery equipment. In the US, GTech's stock price fell as investors reacted to the possibility of the verdict affecting the company's prospects. In early afternoon trading, shares were down $\$\frac{11}{16}$ – a little over 2 per cent – at $\$29\frac{1}{16}$ in spite of the market's strong rise.



Brendan Corr

Richard Branson celebrated in a pub and described the present lottery system as "a risk-free private monopoly with a licence from the British government to print money".

GTech has long attracted controversy, rumour and criticism over its methods of winning lucrative lottery contracts. Until now, the allegations of bribery and malpractice have never been proven and the company has resisted such claims with extreme vigour.

Robert Izmirlian, an equities analyst at Standard & Poor's, said: "If something like this sticks, it could certainly become a problem for the company in trying to negotiate new contracts and to renegotiate older contracts. On the other hand, GTech is one of the most cost-effective lottery companies in the world: so even though it may not look good for the company, and may even result in people having to resign, GTech still has the cost structure and technological capability to run a very good lottery operation."

> 'On the other hand, GTech is one of the most cost-effective lottery companies in the world'

The company and Guy Snowden, its chairman, will now be remembered for the words of his offer to Mr Branson: "I don't know how to phrase this, Richard; there's always a bottom line. In what way can we help you? I mean, what can I do for you personally?"

GTech is largely synonymous with Mr Snowden, who began his career as a junior computer technician with IBM about 30 years ago. He quickly saw the possibility for applying computer technology to the burgeoning lottery business in the US.

He set up GTech in 1980. Under his hands-on leadership, it grew to become the world's biggest lottery operator, currently helping run 72 lotteries on behalf of governments and public authorities on five continents. In the US, it operates 27 and the 37 state lotteries.

The mixed reputation of the gambling industry has ensured GTech's business methods have often been questioned. These came under close scrutiny when a former national sales manager was prosecuted in Kentucky, accused of conspiracy, fraud, money laundering and bribery.

Federal prosecutors claimed that J.David Smith set up a shell company to convey payments from GTech to himself and L.Roger Wells, a former Kentucky state official.

Mr Smith's lawyer claimed during the case that GTech often made "goodwill" payments when seeking lottery contracts. GTech strongly denied this allegation and denied knowing of the alleged scheme. The two men were acquitted after the judge concluded there was too little evidence. However, in a later case in New Jersey, Mr Smith was convicted of defrauding GTech.

GTech has always admitted paying political consultants and others for advice but has always strenuously denied any wrongdoing.

Ford to invest more in Jaguar

By John Griffiths in London

Ford's Jaguar subsidiary disclosed yesterday that it would spend at least £100m ($167m) more on its X400 "small car" project than the £300m previously indicated.

The project, for which Margaret Beckett, chief industry minister, confirmed £43m in UK government aid yesterday, means that a planned reduction of nearly 1,000 in the size of the 2,900 workforce at Ford's Halewood factory in north-west England in the year 2000 will not take place.

Ford had intended to cut jobs after production of the current Escort ended. The smaller workforce would have started building a niche-market MAV (multi-activity vehicle).

Instead, the MAV will be built in Germany or Spain. There will be "only a short transition" between the end of Escort output and start of production of the X400, initially at a rate of "at least" 100,000 a year, Mr Nick Scheele, Jaguar's chairman, said yesterday.

The Halewood factory was a scene of jubilation yesterday as Tony Blair, the UK prime minister, proclaimed the Jaguar project as "a vote of confidence in Merseyside and in Britain", during a live satellite link-up between his London office, Halewood and Ford chairman Sir Alex Trotman in the US.

Jaguar acknowledged yesterday that the X400 - the project with the biggest production volume in Jaguar's history - could more than quadruple Jaguar output to more than 200,000 cars a year. But it is understood to be hoping for greater production volumes for the car, believed itself to have world sales potential of 200,000 units a year.

Some 80 per cent of Jaguar's output is exported, and it plans to invest over $1.5bn in its global dealer network.

Bookshop on net may expand

By Alice Rawsthorn in London

Barnes & Noble, one of the biggest US booksellers, may set up a UK distribution centre for its online retail operation. BarnesandNoble.com currently sells books to customers in other countries from its US distribution centre in New Jersey.

Susan Boster, director of marketing strategy, said Barnes was keen to increase its online sales outside the US and was assessing the feasibility of a UK centre, possibly with a local partner. Expansion of Barnes's online operation is likely to be co-ordinated with its international growth plans for traditional stores.

Last year, a team of Barnes executives visited the UK to look for superstore sites. The search has now been abandoned and company is now looking for acquisition or joint venture opportunities. Borders, Barnes' rival in the US, bought Books Etc, the UK book chain, last year, and is building its first UK superstore, on London's Oxford Street.

UK booksellers are preparing for the competition. EMI Group, which owns Dillons bookshops and the HMV music chain, has joined forces with Tim Waterstone to buy Waterstone's, the book chain he founded, from W.H. Smith. After the deal, Dillons, HMV and Waterstone's will be folded into a new company.

Barnes is keen to establish a presence in the UK before Borders and the new company become firmly entrenched in the market.

BarnesandNoble.com will make sales of $100m (£59.8m) in its current financial year, according to Ms Boster, and to move into profit next year. Between 15 per cent and 20 per cent of its sales come from customers outside the US.

UK NEWS DIGEST

Lloyd's insures rogue trade risk

A syndicate at the Lloyd's of London insurance market said yesterday it had sold its first insurance policy covering banks for the risk of "rogue trading". SVB Syndicates, a managing agency, launched the policy last October. It said the buyer was a "large New York based financial institution with global operations". The risks associated with traders under pressure were graphically illustrated by the collapse of the Barings merchant bank in 1995 following the losses run up by the Singapore-based trader Nick Leeson. Barings suffered losses of £800m ($1,336m). In many cases, such losses are not covered by fidelity policies because the trader has not been involved in fraud for personal gain. SVB's policy provides cover for a trading loss which has been concealed by a trader or falsely recorded. The cover of up to $300m extends to commitments in excess of permitted limits, trading in unauthorised instruments and trading with unapproved counterparties. To qualify, banks will have to show they have the necessary internal controls in place. *Jim Kelly*

■ NORTHERN IRELAND

Minister's rock celebration

The grounds of Stormont, in Belfast, the former seat of the unionist-dominated Northern Ireland parliament, are being considered as a rock concert venue, in a further sign of the UK government's optimism that a deal can emerge from the troubled multi-party talks. The Northern Ireland Office said yesterday it was talking with a number of local promoters. Mo Mowlam, chief minister for Northern Ireland in the UK government – whose idea it is – is understood to be considering calling a public holiday and using the concert as an occasion of public celebration if there is a successful outcome to the negotiations in the nearby Castle Buildings. "Its in keeping with a lot of populist things Labour are doing elsewhere. Stormont is symbolic of Northern Ireland's past. The place badly needs a new image," said one promotions official.

● The banned Loyalist Volunteer Force, which opposes the ceasefire by larger anti-nationalist paramilitary groups, threatened yesterday "to unleash an unholy war against the nationalist community". The announcement followed alleged death threats against the family of Billy Wright, the imprisoned LVF leader gunned down by republican inmates in the top security Maze prison in December. The LVF, which has been blamed for several of the recent murders of Roman Catholics in Northern Ireland, issued a coded statement threatening more killings unless republicans withdrew the alleged threat within the next 12 hours. The LVF statement came days after the group promised to end all killings of what it termed "innocent Catholics". *John Murray Brown*

■ THE ECONOMY

Growth in manufacturing slows

Manufacturing growth has almost disappeared as exports are being squeezed by the strong pound and the Asian financial turmoil, according to the latest survey data. The manufacturing purchasing managers' index, considered one of the most reliable snapshots of the UK economy, fell from 52.7 in December to 51.3 in January. The January level lies just above the "no-change" threshold of 50. Yesterday's figures strengthened expectations among UK economists that the Bank of England, the UK central bank, would leave interest rates unchanged at its scheduled monthly monetary policy meeting tomorrow and Thursday. Base rates are now at 7.25 per cent. The data add to the policy dilemma faced by the Bank, which is confronted by a weak manufacturing sector and rising inflationary pressures in the services sector. Since manufacturing accounts for less than one quarter of economic output, trends in the services sector are likely to weigh heavier in the Bank's overall monetary policy stance. The January purchasing managers' survey for the services sector is due to be published tomorrow. The single biggest factor behind yesterday's reported fall was a decline in exports after a surprisingly robust performance in December. The export order index fell from 52.1 in December to 48.6 in January. *Wolfgang Münchau*

■ FOOD SAFETY

Row over cancer report

Scientists believe the government may be delaying a report on diet and cancer because its findings on red meat do not back up controversial official advice to cut consumption. Members of the diet and cancer working group of the Committee on Medical Aspects of Food Policy (Coma) want the report published immediately because it contains findings on a wide range of other issues connected with cancer prevention. It has been delayed since September when Frank Dobson, chief health minister, advised people eating the average of 90 grammes of red meat a day to consider cutting down because of links with bowel cancer. "It worries me that it hasn't appeared," said Stanley Vennit, reader in cancer studies at London University's Institute of Cancer Research and a member of the expert group. He said the report contained important recommendations, for example that high doses of vitamin supplements taken to prevent cancer could actually increase the risk of lung cancer. *Alison Maitland*

■ PUBLIC HEALTH

CJD claims 10, say official data

The new variant of Creutzfeldt-Jakob disease, linked to BSE or mad cow disease, killed 10 people in the UK last year – the same number as in 1996 – the Department of Health said yesterday. The first three victims had died in 1995. The last new case was diagnosed in October 1997, the department said, but a patient previously confirmed as suffering from the brain disease died in December. Although the latest figures seem reassuring, experts say it is too early to discount the possibility of an epidemic resulting from people eating contaminated meat in the 1980s, before the government took precautions to limit human exposure to BSE. *Clive Cookson*

Defence review may group forces' helicopters

By Alexander Nicoll, Defence Correspondent

Helicopters belonging to each of the three armed services could be grouped under a new joint command as a result of the government's strategic defence review.

The move, still at the discussion stage along with many other proposals, would be part of a thrust towards integrating activities of the services in areas where greater "jointness" could improve operational effectiveness and produce savings. At the moment the army has 270 attack helicopters, the Royal Air Force 164 for transport, search and rescue and training, and the Royal Navy 114 armed helicopters.

A prime aim of the review is to make the forces more flexible, ready for service at short notice in operations such as those in the Gulf and Bosnia. Jointness would play an important part in this.

An augmentation of the resources available to the Joint Rapid Deployment Force – parts of which are ready to deploy at less than 24 hours notice – is also likely, officials said.

George Robertson, the chief defence minister, has identified "strategic lift" – aircraft and ships which can lift heavy equipment to distant operations – as a gap in Britain's capabilities which needs addressing.

A senior officer, briefing reporters yesterday at the Permanent Joint Headquarters at Northwood, north-west London, said meeting this need was more important than adding to the weapons and equipment which the joint force might have when deployed.

The officer said a larger aircraft was needed than the Lockheed Martin C130J, with which the Royal Air Force is now replacing its transport fleet. Britain has recently borrowed American C5 as well as Russian Antonov aircraft.

A lobby is believed to be building within the RAF to purchase or lease the Boeing C17, although there is also political and budgetary pressure to proceed with the cheaper but smaller Future Large Aircraft being developed by the Airbus consortium. Both are large enough to carry two helicopters.

The officer said other weaknesses in the JRDF included inadequate sustainability of forces once deployed, lack of equipment needed for expeditionary warfare and the need for more joint training.

TECHNOLOGY

Vanessa Houlder starts a series on the revolutionary promise of new techniques for 21st century medicine

Anatomy of advancement

Machines and medicine

It has been little short of a revolution. Over the past few decades, medical technology has advanced through a series of dazzling innovations, ranging from heart transplants to test tube babies.

But the achievements of medical technologists over the coming decades could be even more significant. Advances in electronics and biotechnology could radically change the treatment of many diseases. It could also have a deep impact on the role of doctors and hospitals in the 21st century.

"There are changes under way that are terribly profound," says Sir Michael Peckham, former head of NHS research and development and now director of the science and health forum of the school of public policy at University College London. "The most powerful levers are genetics and information and communications technology. They could produce a real gear change."

Medical equipment is likely to see some radical changes, according to many in the industry. "In a few years, computers may help train doctors, guide robotic devices, diagnose diseases and recommend treatments in hospitals where operations can be knife-less and new artificial body parts are available for those who need them," according to the Health Industry Manufacturers Association, the Washington-based medical technology association.

Some of these ideas may sound far-fetched, but work is already under way. Robots capable of far greater precision than any surgeon are being tested in hip replacement operations. US scientists are designing computer chips containing DNA that can diagnose cancer from a blood sample.

Researchers think they will soon be able to replace almost any part of the body with implants engineered from living cells and synthetic materials. "I think we are at the start of a technical revolution in medicine," says John Robinson, chairman of Smith & Nephew, the UK medical technology company.

Advances in information technology could also have important implications for the quality of healthcare. Better management of information – to give doctors access to a patient's entire medical record and up-to-date information on treatment – could "revolutionise the health service", according to John Williams, director of the postgraduate medical school in Swansea.

The ease with which information can be sent down telephone lines has already led to pioneering experiments in telemedicine. This gives remote communities access to specialists, potentially cutting costs and reducing the time it takes to get treatment. The introduction of handheld, miniaturised diagnostic gadgets is further reducing the need for patients to visit hospitals, by allowing the doctor to diagnose a patient's problem on the spot.

Innovations such as these could ultimately save health providers money. But for the most part, new medical technology is anything but cheap. This raises the pressing question of how progress in medical technology will be affected by the almost universal squeeze on healthcare costs.

One possible consequence of this is that manufacturers' margins would come under pressure, prompting them to cut back spending on R&D. Medical equipment companies in the EU spend 5 per cent of their revenues on R&D, compared with 6.7 per cent in the US and 6 per cent in Japan, according to Frost & Sullivan, the researchers. It might also stop healthcare organisations buying more expensive and advanced equipment.

Nowhere are these issues about cost control more pertinent than in the $68bn (£37.7bn) US medical technology market, which accounts for 40 per cent of the world market. Economic constraints are changing the way manufacturers think about their products, says Amy Macdonald, a medical technology analyst at Lehman Brothers in the US.

"The environment for spending on medical technology has changed," she says. "You need to have products that not only have a better clinical outcome but also demonstrate some economic benefits, for all except those aimed at the most life-threatening conditions."

The exception is illustrated by the growth of the market for defibrillators, life-saving machines that restore the rhythm of the heart beat. Despite costing $40,000 each, the market is growing at 25-30 per cent a year.

Computers will allow doctors to work more efficiently, more invasive procedures will be replaced with non-invasive ones and more people will be looked after at home

In Europe, the medical equipment industry is likely to see a period of consolidation in response to cost pressures, says Alan Kent, chief executive of the Medical Devices Agency, part of the Department of Health in the UK.

There is a risk that consolidation will create a climate that is more hostile to innovation, he says. But, in his opinion, the companies that survive will be the ones that invest in R&D, particularly if they operate in fast-moving areas that make heavy use of electronics or software.

Regulatory change is also affecting the medical equipment industry. In the US, President Clinton signed legislation last November designed to accelerate federal approval of certain new drugs and medical devices. "Regulatory reform is pretty useful. It should make it faster to get products on the market," says Ms Macdonald.

Meanwhile regulations are being harmonised across Europe. Although this makes it easier for companies to market products internationally, they may now find they must meet tougher standards.

Tougher regulations have increased the barriers to entry. This may, Mr Kent says, make it harder for a start-up company to bring an innovative product to the market. If so, it may be necessary to find some mechanism by which start-ups can be encouraged.

Start-ups play an important role in moving medical technology forward. Indeed, many innovative medical devices are the work of small companies – which then tend to stay small because of the relatively limited size of the market for most pieces of medical equipment. Apart from a small number of huge international businesses, the industry is highly fragmented, with 6,000 medical device manufacturers in Europe alone, according to Frost & Sullivan.

This fragmentation contributes to the difficulty among doctors to keep informed and make judgments about advances in technology. Patients often encounter a bewildering inconsistency in the treatments offered by different hospitals.

This problem has been addressed in initiatives that attempt to sift the evidence on the effectiveness of treatments. Trying to make things more rational by spreading best practice could have huge benefits for patients, according to Ruairidh Milne, director of the UK's National Co-ordinating Centre for health technology assessment.

Writing in The Lancet, one expert predicted that the Cochrane Initiative – an international network set up to evaluate the effectiveness of medical treatments – would be as important to human health as the Human Genome Project, which is trying to identify all the genes in the human body.

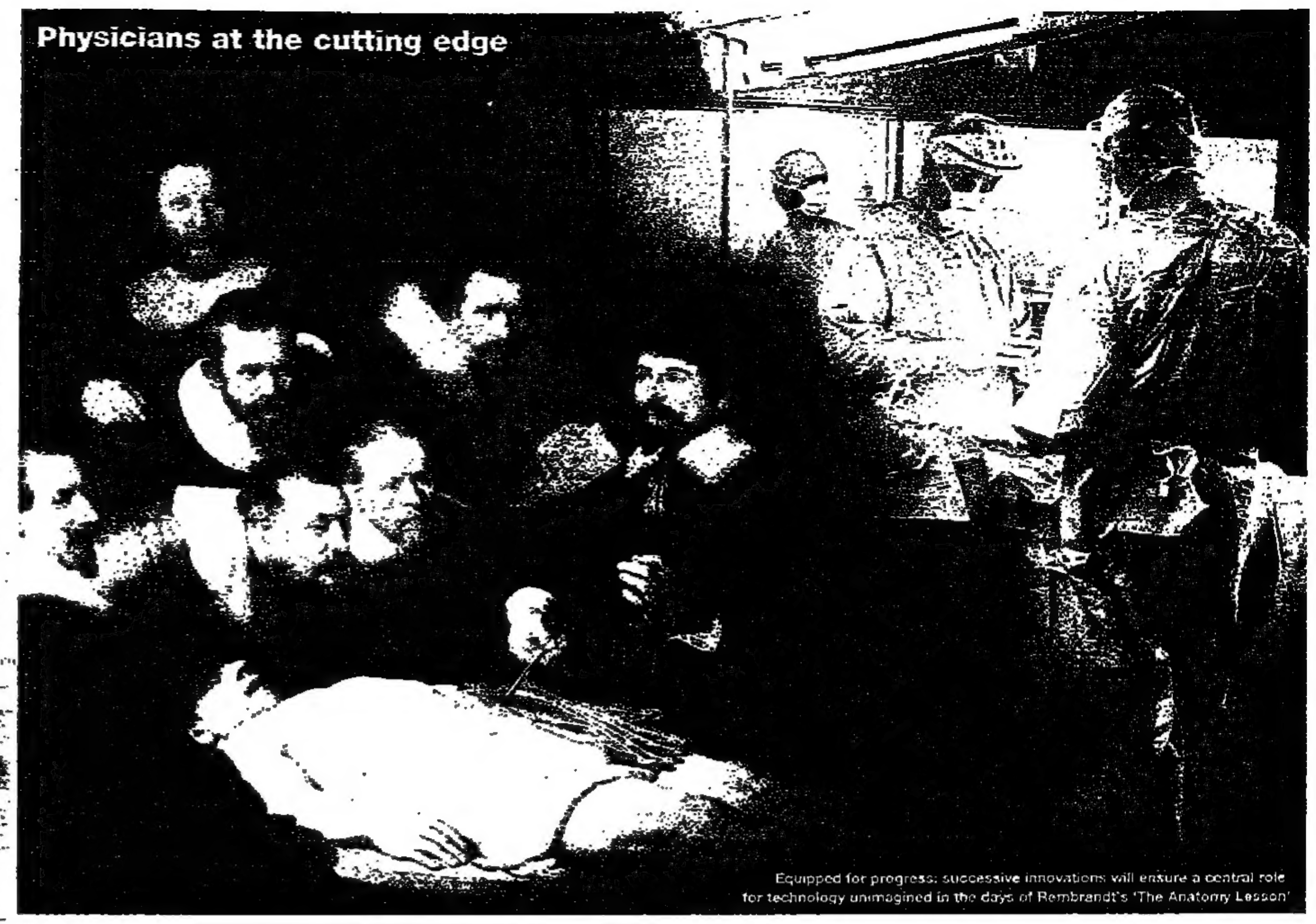
It may seem odd to compare a rather unglamorous attempt to analyse the results of clinical trials with an ambitious – and potentially invaluable – project on the cutting edge of genetics. But in fact the impact made by ambitious, high-tech projects is often dwarfed by more mundane initiatives.

A large number of new treatments do not turn out to be a significant advance on the old. Indeed, medical experts agree that the overall health improvements in the developed world over the past century are as much a matter of education, better sanitation and living standards as medicine.

Certainly, there is no scope for triumphalism when it comes to judging medical progress. The treatment of cancers and degenerative conditions, such as Alzheimer's disease, are distressingly inadequate. Even antibiotics – the most outstanding success story of 20th century medicine – have lost some of their power. But it would also be hard to justify pessimism about likely improvements. Even conservative researchers think it likely that computers will allow doctors to work more efficiently, that more invasive procedures will be replaced with non-invasive ones and that more people will be looked after at home rather than in the hospital.

Optimists can go much further. They point to the sense of excitement surrounding much fundamental research in medical science and technology. Over the next decade, much of this work will come to fruition. If successful, it could have an unprecedented potential to enhance and prolong life.

Physicians at the cutting edge



Equipped for progress: successive innovations will ensure a central role for technology unimagined in the days of Rembrandt's 'The Anatomy Lesson'

LAW

Partial victory for Ladbroke

EUROPEAN COURT

The European Court of First Instance has partly annulled a decision by the European Commission on state aid granted by the French authorities to Pari Mutuel Urbain (PMU), the French off-course betting group.

The decision arose out of the long-running dispute between Ladbroke, the UK bookmakers, and the French betting system. Ladbroke challenged seven measures adopted by the French government in favour of PMU.

By its 1993 decision the Commission exempted three of the measures from European state aid rules. It also decided that the four other measures did not constitute state aid.

The Commission only exempted the three measures until 1989. After that they were incompatible with the Treaty of Rome and the aid had to be repaid.

The Commission nevertheless limited in time the obligation to recover the aid because the French had invoked the principle of legitimate expectation by the recipient that the aid was lawful. It also left it to the French to calculate the amount of unlawful aid and inform Brussels.

The Court said the Commission had erred in relation to three of the four measures it decided did not constitute state aid. These included the retention of unpaid winnings by PMU to finance social security expenditure, a two-month deferral by the state of public levies payable by PMU on betting, and a decision changing the allocation of the amount of public levies in PMU's favour.

It made several observations on what constitutes state aid. It said the concept of an aid was objective and distinguished between measures of state intervention in terms of their effects. The causes or aims of a measure were only relevant to the issue of exemption.

In respect of tax legislation or the implementation of tax arrangements, the exercise of such competence by the state may prove incompatible with state aid rules. The rules apply whether a measure is permanent or provisional. The fact that the level of aid is relatively low does not preclude the ban on state aid applying.

Where state resources are transferred to the aid recipient to finance social expenditure which an undertaking is normally responsible for, such a measure constitutes aid.

In respect of the three exemptions granted by the Commission, the Court found no reason to interfere with the Commission's discretion in such matters. The compatibility of a state aid with the common market raised complex questions of economic fact in circumstances which were liable to change rapidly.

The Court's review was limited to verifying compliance with procedural rules, the accuracy of the facts on which the decision was based and the absence of manifest error of assessment and of misuse of powers.

The Court overturned the decision to limit the temporal scope of the recovery of unlawful aid. It was for the recipients to invoke the principle of legitimate expectation, before the national authorities or courts. The Commission was wrong to rely on the position of the French authorities in respect of the purported legitimate expectations of PMU.

The decision to allow the French to calculate the amount of aid to be recovered was permissible. European law does not demand the Commission calculate the amount to be reimbursed, particularly where the calculation involves consideration of rates and means of recovery fixed by national tax regimes.

T-67/94: Ladbroke Racing v Commission, CFI 2CH, January 27 1998.

BRICK COURT CHAMBERS, BRUSSELS

INTERNATIONAL PEOPLE

Bankers Trust appoints Soltis

Stephen Soltis has been appointed head of Bankers Trust's newly formed global asset mangement services group which will aim to provide institutional clients with a range of fund management services.

Soltis joins BT, the US investment bank, from J.P. Morgan where he was chief administrative officer and chief financial officer of J.P. Morgan Investment Management. At BT he will report to Mary Cirillo, head of BT's Global Institutional Services division. "By bringing all of our asset management services together in a single structure, we have strengthened our ability to deliver fully integrated solutions to our clients," says Cirillo.

The new global asset management group has four main businesses: investment management; securities lending; custody and retirement services; and performance and risk measurement. BT manages more than $320bn in quantitative, index, fixed income and cash strategies and was recently ranked the third-largest US index manager.

BT is also the fourth largest custody provider in the world, administrating more than $2,000bn in custody assets for clients worldwide. BT's performance measurement group, which includes the Edinburgh-based WM Company, supports more than 12,500 portfolios valued at $1,500bn.

William Lewis, New York

Leach joins ABN Amro in the US

Timothy Leach has been named president and chief executive officer of ABN Amro Asset Management (USA), the US arm of the Dutch bank's asset management division.

ABN Amro's worldwide asset management operation invests more than $85bn in client assets. The bank described the appointment of Leach as "the next step in achieving the important goal of establishing ABN Amro Asset Management USA as a global investment manager in the US".

ABN said that Charles Klimlowski, executive vice-president and director of investments, and Richard Frodsham, executive vice-president and director of marketing, were to continue in their posts. "No further management changes are planned," ABN said.

Leach was until recently president and chief investment officer of Qualivest Capital Management, a subsidiary of US Bancorp based in Portland, Oregon. ABN said that during Leach's posting with Qualivest its assets under management increased from $4.5bn to $11.5bn.

Irimajiri becomes Sega president

Sega, the video games company, has named Shoichiro Irimajiri, 58, to succeed Hayao Nakayama as president.

Irimajiri, who joined Sega from Honda, was a rising star from his days at the car company. A graduate of the prestigious Tokyo University's engineering department, he rose to become vice-president of Honda, at the young age, by Japanese standards, of 50.

However, in a move that surprised the Japanese corporate world, he stepped down to become an adviser to Honda before leaving the company abruptly in 1993. It was only a year later that Irimajiri joined Sega as vice-president.

His time with Sega has been marked by dramatic changes in the industry in which Sega has not necessarily come out on top. The video games maker has faced a particularly rough period in the consumer market, where sales of its 32-bit games machine, the Saturn, have lagged those of its competitors.

Michiyo Nakamoto, Tokyo

Weber to head Adecco finances

Felix Weber, 46, is joining Adecco, the world's biggest temporary recruitment agency, as chief financial officer. Weber, who has spent 12 years with the Swiss arm of McKinsey, the international management consultants, is following in the footsteps of several Swiss colleagues who have been head-hunted for top positions in Swiss finance and industry.

Weber replaces Peter Pfister, Adecco's current chief financial officer who is moving to the newly created position of chief executive of Adecco's North American operations. Adecco has made a number of acquisitions in North America and Pfister's appointment will strengthen a North American management team which until now has been headed by Debbie Pond-Heide. She continues to run Adecco's traditional business in North America and Pfister's first task will be to integrate the recently acquired TAD Resources International.

Adecco, formed from the recent merger of France's Ecco and Switzerland's Adia, says that its revenues are growing nearly three and a half times faster than those of the two predecessor companies. It is number one in Europe and is keen to overtake Manpower, its arch rival, which is the leading company in the US.

However, if it is to achieve its US ambitions Adecco still needs to fill another vacancy following the recent departure of George J. Gremse, who had been in charge of Adecco's worldwide information technology. Gremse, a former retail banker with Citibank, has been appointed president of Alamo, the car rental company. Prior to becoming Adecco's chief information officer, Gremse was president of Adecco's North American operations.

William Hall, Zurich

Moving places

■ PUTNAM INVESTMENTS has appointed John Boneparth chief of international sales. A managing director, Boneparth has been Putnam's chief of institutional sales. In his new role he will lead sales activities in Japan and Italy, where Putnam has alliances with local companies, and for Putnam Offshore Funds, the company's line of retail funds domiciled in the Cayman Islands. He will also assist in the development of other offshore ventures and alliances.

■ BAYER, the German chemicals and pharmaceuticals group, has appointed Werner Spinner to its management board. After Bayer's annual meeting on April 30, Spinner will take over chairmanship of the board committee for marketing and logistics from Manfred Pfleger, who will be starting pre-retirement leave.

■ Philippe D'Argent, 46, has been appointed to the newly created post of chairman and managing director for Europe, Middle East and Africa of AMERICAN POWER CONVERSION. Based in Paris, he will head APC's sales marketing, logistical and client services activities. D'Argent was previously managing director of Toshiba France.

■ Herve Rolland, 40, has been appointed director of the small and medium-sized business sector at IBM for France and Belgium and becomes a member of the management committee. He replaces Alain Benichou who moves to IBM headquarters in Somers, North America. Rolland was previously head of Unix systems at IBM France.

■ Patrick Roeder will take up the post of marketing and sales director of DEUTSCHE ASSET MANAGEMENT and DEUTSCHE GESELLSCHAFT FUER FONDSVERWALTUNG, Deutsche Bank's institutional asset management units in Germany, on March 16. Roeder is currently head of securities investment for the Hoechst pension fund.

■ Diana Espino has resigned from her position as chief financial officer of industrial conglomerate CORIMON. She had been with the company for two years.

■ Chen Shumin, general manager of SHANGHAI NARCISSUS ELECTRIC APPLIANCES has resigned in order to take up another, undisclosed job within the company. Song Weimin, currently chairman of the washing machine maker, will replace him.

■ Jorge Botero, a veteran banker and legal adviser, has been named chief of COLUMBIA'S BANKING ASSOCIATION. He succeeds Cesar Gonzalez, who has resigned. Botero, 54, is currently head of the National Association of Pension and Severance Funds. He has served, in the past, as chief legal council to the Colombian presidency and as president of Columbia's Bancafe Bank.

■ DEUTSCHE MORGAN GRENFELL has appointed Geoffrey Dennis head of global emerging markets strategy. Dennis had been global emerging markets strategist and head of Latin American research at HSBC James Capel, a unit of HSBC Holdings.

■ LUCENT TECHNOLOGIES has named chief executive Richard McGinn to the post of chairman, effective February 18. McGinn, currently president and chief executive, will no longer carry the title of president after February 18. McGinn, 51, will succeed Henry Schacht, 63, who will retire. Schacht will remain director and senior adviser.

■ Mexican president Ernesto Zedillo has named economist Everardo Elizondo deputy governor of the BANK OF MEXICO. He replaces Francisco Gil Diaz, who resigned last December to become chief executive of telecommunications company Avantel. Elizondo was formerly director of economic studies at Mexico's second-largest financial group, Grupo Financiero Bancomer.

■ BANKERS TRUST NEW YORK has said that "Buzzy" Krongard, vice-chairman of the board of directors, will resign from the board to accept a position as counsellor to the director of the Central Intelligence Agency. Krongard, the former chairman and chief executive of Alex Brown, became vice-chairman of Banker's Trust after its merger in September with Alex Brown.

■ Patrick Grayson, former European chief executive of Kroll Associates, the American investigation agency which recently merged with the O'Gara company, has been appointed chairman of CDR INTERNATIONAL.

■ After 10 years as head of the EUROCLEAR representative office in London, Charles Hatfield II, vice-president, will retire this month. Philip Reichardt, vice-president and currently a senior member of the Emu Project Team at the Euroclear operations centre in Brussels, has relocated to London to become head of the Euroclear representative office. Before joining the Euroclear operations centre in 1996, Reichardt held various positions at the Bank of England and the London Stock Exchange.

■ Nick Prentice has been appointed to head ARTHUR ANDERSEN'S tax and legal practice covering Europe, Middle East, India and Africa. He is currently head of the firm's UK tax and legal practice and he will continue in this role.

■ AVIS EUROPE, the car rental company, has announced the appointments of Don Graham as vice-president – group taxation, and Peter Gates as vice-president and group treasurer. Graham has been with the Avis group since May 1985 and Gates since May 1989. These appointments follow the decision by Dan Churchill, vice-president finance, to become an adviser to the company prior to his planned early retirement in June 1998.

■ Dominique Derwa has been appointed chairman of cosmetics company CARITA to replace Alain Michel. Derwa, 35, has been managing director of the group's subsidiary in Belgium and Luxembourg since 1988.

■ MATSUSHITA ELECTRIC PHILIPPINES has elected Yoshikazu Tanaka president. Tanaka replaces Yoshihiro Hama, who also resigned as chairman of the company. Takashi Asano has been elected treasurer of the company, the position held by Tanaka prior to assuming his new post.

International appointments

Please fax information on new appointments and retirements to +44 171 873 3926, marked for International People. Set fax to 'fine'.

Detail from 'Aldgate East III', 1997, by Jock McFadyen: the work is as strong as it is surprising

Disquiet in the cityscape

William Packer admires the work of complementary artists, Jock McFadyen and Humphrey Ocean

Artists' collaborations, while not always successful, are always interesting. Even odd and arbitrary pairings, made at the whim or mutual convenience of gallery and artists, have their moments. Something surprising or useful will almost always crop up – the unexpected comparison, affiliation or confrontation in the work, invidious, salutary or illuminating as may be.

But when the artists themselves take the more positive hand by proposing, or responding to, the particular opportunity, we should sit up. And here, with *Urbasuburba*, which has come to Kapil Jariwala in London from showings at the Whitworth in Manchester and the Ormeau Baths in Belfast, we have just such a case.

Alistair Smith, director of the Whitworth, knew from his previous experience the work of both Humphrey Ocean and Jock McFadyen, sometime winner of the John Player Portrait Award (1982) and Artist-in-Residence at the National Gallery (1981) respectively. But while Smith had registered a common interest in the town and cityscape, they remained for him quite distinct in their creative identities, possible contributors to a thematic exhibition but hardly more.

But once mooted, the more obvious the idea of putting the two of them together became, and what then more natural than that they should take it upon themselves. *Urbasuburba* was their suggestion, pointing-up directly the complementary nature of their subject-matter, its two aspects at once opposed yet insensibly merging, the one into the other. Such conjoined polarity is directly reflected in both their imagery and their way of handling it – McFadyen the tougher, edgier and more awkward: Ocean the more discreetly disquieting.

McFadyen, from Paisley, and Ocean, from Sussex, are both now in their later 40s, and they make an oddly appropriate couple. The work is as strong as it is surprising, most especially in McFadyen's case. He was always a clever and interesting painter, but with a tendency towards exaggeration in his description of face and figure that readily leads on to the grotesque, and so into satirical illustration and social comment.

We have seen little of his work in London lately, and while one or two of the smaller canvases still have that once characteristic quality of exaggeration and distortion, it is noticable now that the larger and more obviously ambitious paintings, where they are not entirely empty of them, have only small incidental figures as an animating human presence – a workman up a ladder outside a cinema; a scatter of players on a floodlit public pitch.

These large canvases, with or without the figure, are the most impressive things he has done, simple and direct in their formal presentation, as rich as ever in the paint and surface, and yet without any sacrifice of that atmosphere of squalid desperation and anxiety that has always marked his work. If anything it is now the stronger for being the less explicit. The paintings of the deserted underground station at Aldwych East, bleak in the pale yellow light, the crumbling walls hung with cables and a litter of signs, the steel doors locked, are the best things of his, and indeed the best of any paintings of the subject, I have seen.

Ocean, by contrast, is somewhat cooler in the work itself, in the flatter, less agitated surface of his paint and its restrained tonality, and ironical and detached in the quality of his observation. But appearances are deceptive. It may be a sweet suburban scene, but it is a dark house that lurks behind the cherry-blossom. A black road swings away beneath an arc of street-lights. How smart it is, that grey pre-fab in its grey world. That is a block of council flats transfixed in the sunshine, and it stands upon the very hilltop where, once upon a time, William Blake received his vision of the Golden City.

Everything seems measured, calculated, controlled: yet is there, perhaps, a quality too of contained, quiet, panic in that careful flurry of trees and bushes and herbaceous borders, set in such painterly contrast against those crisp, flat planes and sharp edges of block and bungalow? But Ocean, I know, would far rather paint your portrait in just that way, at once probing and dissimilating, than give an answer.

Urbasuburba: Kapil Jariwala Gallery, 4 New Burlington Street W1, until March 28: supported by Quentin Bell.

Concerts/**Andrew Clark**

Gergiev breaks the spell

The world's most charismatic conductor has been in London these past few days – and he proved to be not so charismatic after all. On Saturday at the Festival Hall, Valery Gergiev conducted the first of two concert performances of Tchaikovsky's opera *The Enchantress*, uniting a Russian and British-based cast with the orchestra and chorus of the Royal Opera. Between rehearsals, he somehow fitted in a UK tour with the Kirov Orchestra, including a visit to the Barbican on Thursday.

Perhaps it was all too much, because Saturday's conductor was noticeably less energetic, less inspirational than Thursday's. In *The Enchantress* Gergiev seemed buried in the score, as if he had not had enough time to study it – and with his crazy work-load and travel schedule, is anyone surprised? That left the music to speak for itself, and it was not enough. *The Enchantress*, composed just after the *Manfred* Symphony and marked by the same dark woodwind cantilenas, is not top-drawer Tchaikovsky: it lacks the thematic, psychological and emotional sweep of his masterpieces. A conductor who "hears" the opera in its entirety might give it the shape and irrefutable conviction it needs. In Gergiev's hands, it sounded like a professionally engineered but impotent cocktail, in which the romantic and folk/nationalist ingredients do not gel.

When the Brighton festival mounted the UK stage premiere two years ago, my impression was that it would be better heard in concert or on records. On Saturday, I found myself on the opposite side, wanting the visual distraction of the stage to carry all those lengthy tirades and wordy ensembles. Even in the concentrated form in which it was presented (only one interval in a span of nearly four hours), the opera came over as a dramaturgical plateau, long-winded and one-dimensional. As in Brighton, only the Nastasya-Yury confrontation in Act 3 withstood close inspection – the one scene in which Tchaikovsky treated his characters as thinking, feeling beings rather than as isolated stereotypes.

You could argue that if Gergiev cannot bring *The Enchantress* to life, no one will. Or perhaps it calls for the untrammelled vision Andrew Davis and Graham Vick brought to *The Queen of Spades* at Glyndebourne. What is beyond doubt is that this is just the kind of big, risky rarity the Royal Opera should be exploring in its out-of-house season: the subdued impression left by Saturday's performance does scant justice to the care the company lavished on it.

Of the six Russian principals (not all from the Kirov), Larissa Diadkova's Princess stood out for her vividly-coloured declamation and power. Formidable even in concert dress, she alone sounded as if she had sung her role on stage. Galina Gorchakova, by contrast, was a correct, dispassionate Nastasya: the basic vocal material is still impressive, but she used it sparingly and unseductively, refusing to strike sparks with Nikolai Putilin's Prince or Gegam Grigorian's Yury. Vladimir Matorin relished his two character parts, and the supporting cast – especially Robin Leggate and Jeremy White – sang like honorary Russians.

Thursday's concert at the Barbican was pure unsullied pleasure from start to finish. Far from sounding overworked, the Kirov Orchestra played tirelessly, stylishly, radiantly. The Act 1 prelude to *Lohengrin* unfolded no less seamlessly than when Gergiev conducted the opera at Covent Garden a year ago; in Rakhmaninov's Third Piano Concerto, the orchestra supplied the temperament and weight of sonority missing in Leif Ove Andsnes's dazzlingly understated account of the solo part; and Tchaikovsky's Fifth Symphony was all the more moving for its rapt spontaneity, with a slow movement of breath-catching delicacy. Every phrase sounded fresh-minted.

The difference between this performance and *The Enchantress* was not just the quality of Tchaikovsky's music: in the Fifth Symphony Gergiev was on top of his material, and had the freedom to shape it with the authority and dynamism for which he is justly renowned.

Concerts/**David Murray**

Stirring strings, and the latest Berkeley

Last week the Bell gang took over the Wigmore Hall again for some more sold-out concerts. This time the violinist Joshua Bell's partners included the cellist Steven Isserlis, the Endellion Quartet and others as needed, and the series was billed as a "Dvořák-Bartók festival". I heard their second programme, in which the star turn was Bell and Isserlis playing Kodály's splendid Duo.

There was nothing wrong with the rest – quite the contrary; but Bartók's second quartet is an elusive piece, even when delivered with intelligent sympathy by the Endellion. And though Dvořák's A major sextet sounded delectable, with the two soloists leading the Endellion through dappled thickets of string-sound, it makes easy, effortless listening.

Kodály's Duo demands not only virtuosity, which Bell and Isserlis of course supplied, but also a lot of extrovert dramatic flair: not the first thing one associates with either musician. In fact Bell and Isserlis offered flair in spades. All the musical showmanship required, *and a tight grip on the structure* of the piece – failing which it can sound just flashy, not the open-hearted but finely planned score that it is. Here it was both exhilarating and satisfying, with the extra delight of partners who are *not competitors*. We cheered.

Squeezed in among the Bell gang's concerts was a solo affair by Yo Yo Ma (also sold out). He played three of Bach's cello Suites on Friday. These days he counts as the world's most loved-and-admired cellist, in succession to Rostropovich, whom we see more often now on the conductor's podium.

Rostropovich's Bach-playing was greatly revered, but its flavour was different – big, sweeping gestures, burning intensity, high drama. Since then Early Music has set in, fiercely purist, with a minatory aside to Bach performers: learn *not to Romanticise this great* Baroque composer! Accordingly, Ma addresses himself to the notes alone (head tilted upwards, with a beatific smile).

More precisely, to Bach's patterns of notes: simple in detail, even period-conventional, but magisterially deployed in grander patterns. Discovering the longer rhythms of those, and making all the passing details work naturally toward rendering the big trajectories transparent, is what displays Ma's selfless genius best.

Doing that involves unending nuances, but none of them sounded artful. Countless hesitations or advancements of the beat too, all of them as apparently instinctive and unfussy as could be – which only the most rigorous, self-critical application can achieve. You had to force yourself to notice them, and just going with the flow was so much more rewarding that it was wiser not to bother.

At the start of the London Symphony's Wednesday concert, which was otherwise bland and very pleasant (Mozart's lesser Sinfonia Concertante with four first-desk LSO winds as soloists, Dvořák's 7th Symphony in a golden glow of sound), Sir Colin Davis conducted Michael Berkeley's new *Secret Garden*, some 13 minutes long. It began and ended with stark overlapping fanfares, representing the garden walls – tolerably effective, though the immediate repeat of the opening fanfares served no evident purpose. In between came the garden-idyll, which seemed to contain only wispy shrubs: uncertain little fragments in no cogent order, some tinkling whiffs of stage-Orientalism, the predictable hints of bird-calls. Berkeley's own programme-note invested the garden with a "psychological" significance which the music scarcely began to bear out. It sounded to me like a provisional first draft, in need of a tough-minded rethink.

Payne moves to ENO

Nicholas Payne is to be the new general director of English National Opera. He leaves the Royal Opera House, Covent Garden, where for the past five years he has been director of opera, to take over his new post in the summer.

Payne, 53, was always the favourite candidate. His departure causes more problems for Covent Garden, which is finding life on the road, while the Royal Opera House undergoes a £214m facelift, difficult. Payne had applied twice for the top job at Covent Garden. He will not be unhappy to leave.

Under its new music director, Paul Daniel, ENO is receiving a better critical response, but its plans for an expensive redevelopment of its creaking building at the Coliseum still await lottery approval. Its larger ambitions, for a purpose built opera house on a new site, are also in abeyance.

Payne and Daniel worked together at Opera North in the early 1990s, and should have no problems in sorting out their priorities, with Daniel concentrating on programming while Payne tries to eliminate ENO's debts.

Antony Thorncroft

INTERNATIONAL
ARTS GUIDE

■ AMSTERDAM

OPERA
Netherlands Opera, Het *Muziektheater*
Tel: 31-20-551 8911
Die Walküre: by Wagner. New production conducted by Hartmut Haenchen in a staging by Pierre Audi; Feb 4, 7

EXHIBITION
Fundació Joan Miró
Tel: 34-3-329 1908
www.bcn.fjmiro.es
Liza Lou: The Back Yard. Installation by the American artist, which critically recreates the typical American garden; to Mar 15

■ BASLE

EXHIBITION
Offentliche *Kunstammlung* Basel
Tel: 41-61-271 0828
Adolf Wölfli: The Ernst and Maria Elisabeth Mumenthaler-Fischer Endowment. More than 100 drawings by the artist whose psychiatrists were the first to draw attention to his work; to Apr 13

■ BERLIN

CONCERTS
Philharmonie
Tel: 49-30-2548 8354
Berlin Philharmonic Orchestra: conducted by James Levine in works by Webern, Messiaen and Brahms; Feb 4, 5, 6

■ BRUSSELS

OPERA
La Monnaie
Tel: 32-2-229 1211
El Amor Brujo/La Vida Breve: by Manuel de Falla. Both works are staged by Herbert Wernicke and conducted by Mark Stringer; Feb 3, 4, 5

■ CHICAGO

CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
● Chicago Symphony Orchestra: conducted by Daniel Barenboim in works by Beethoven and Bruckner; Feb 3
● Chicago Symphony Orchestra: conducted by Daniel Barenboim in works by Beethoven, *Carter and* Tchaikovsky; Feb 5, 6, 7

■ FRANKFURT

CONCERTS
Alte Oper
Tel: 49-69-134 0400
Amsterdam Baroque Orchestra and Choir: conducted by Ton Koopman in works by Bach; Grosser Saal; Feb 8

■ GLASGOW

OPERA
Theatre Royal
Tel: 44-141-332 9000
Scottish Opera: Cosi fan tutte: by Mozart. New production by Stewart Laing, conducted by Nicholas McGegan; Feb 5, 7

■ HELSINKI

OPERA
Finnish National Opera
Tel: 358-9-4030 2211
Come back, Gabriel: world premiere of Ilkka Kuusisto's new work based on the true story of a confidence trickster who preyed on lonely women. Conducted by the composer in a staging by Jussi Tapola, with designs by Anna Kontek; Feb 3, 6

■ LONDON

EXHIBITIONS
National Portrait Gallery
Tel: 44-171-3060055
High Society: Edwardian Photographs. A collection of studio portraits, reprinted from a recently rediscovered cache of original negatives. Subjects include Lloyd George, Winston Churchill and Lillie Langtry; to Jun 21

Tate Gallery
Tel: 44-171-887 8000
Per Kirkeby (b.1938): continuing the series of contemporary sculpture displays, this exhibition includes paintings, sculptures and a specially constructed brick structure by the Danish artist; from today until May 26

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
● Eugene Onegin: by Tchaikovsky. Conducted by Michael Lloyd in a staging by Julia Hollander; Feb 4
● *The Elixir of Love*: by Donizetti. New production, directed by Jude Kelly and designed by Robert Jones. The conductor is Michael Lloyd; Feb 3, 7

■ LOS ANGELES

CONCERTS
Dorothy Chandler Pavilion
Tel: 1-213-365 3500
Los Angeles Philharmonic: conducted by Mark Wigglesworth in works by Brahms and Beethoven. *With piano soloist* Stephen Kovacevich; Feb 5, 7, 8

■ MANCHESTER

CONCERTS
Bridgewater Hall
Tel: 44-161-907 9000
Hallé Orchestra: conducted by Kent Nagano in works by Britten, including his Double Concerto. With viola soloist Yuri Bashmet and violin Gidon Kremer; Feb 5

■ MILAN

OPERA
Teatro alla Scala
Tel: 39-2-88791
www.lascala.milano.it
Die Zauberflöte: by Mozart. Conducted by Riccardo Muti in a staging by Roberto De Simone. With sets by Mauro Carosi and costumes by Odette Nicoletti; Feb 3, 5, 7

■ MUNICH

EXHIBITION
Haus der Kunst
Tel: 49-89-211270
Symbolism in England 1860-1910: previously seen in London's Tate Gallery, this show presents work by British pre-Raphaelites alongside that of their European contemporaries. Includes works by Rossetti, Burne-Jones, Watts and Lord Leighton; to Apr 26

DANCE
Philharmonie Gasteig
Tel: 49-89-5481 8181
United Colours in Concert: flamenco from the Joaquín Ruiz company; Feb 8

OPERA
Philharmonie Gasteig
Tel: 49-89-5481 8181
Die Zauberflöte: by Mozart. Polish Opera production by Mark Tracz; Feb 6

■ NEW YORK

EXHIBITIONS
Guggenheim Museum
Tel: 1-212-423 3500
www.guggenheim.org
China – 5,000 Years: comprising more than 500 works of art, ranging from the Neolithic period to the modern, with traditional works displayed at the uptown museum (Feb 6 to Jun 3), and the modern section at the Guggenheim Museum SoHo (Jan 29 to May 25). The whole will transfer to Bilbao in the summer

■ PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Theodor Guschlbauer in works by Roussel and Brahms. With violin soloist Shlomo Mintz; Feb 5, 6

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
● Tosca: by Puccini. Conducted by Jan Latham-Koenig in a staging by Walter Schroeter. Maria Guleghina sings the title role; Feb 3, 7
● Tristan und Isolde: by Wagner. New production conducted by James Conlon in a staging by Stein Winge, with designs by Lennart Mörk; Feb 4, 8

■ ROME

OPERA
Teatro dell' Opera
Tel: 39-6-481601
www.themix.it
Le Nozze di Figaro: by Mozart. Production for the Teatro Comunale in Florence by Jonathan Miller. Conducted by Hans Graf, with sets by Peter J Davison; Feb 3, 5

■ SAN FRANCISCO

CONCERTS
Davies Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
San Francisco Symphony Orchestra: conducted by Carl St. Clair in works by Haydn, Brahms *and Mendelssohn. With cello* soloist Michael Grebanier and violin Chee-Yun; Feb 5, 6, 7

■ TV AND RADIO

● WORLD SERVICE
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● CNN International
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● Business/Market Reports:
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

Martin Wolf

What price welfare?

The government's plans to reform the welfare state have to take account of the delicate trade-offs built into the present system

When Gordon Brown presents his Budget on March 17, he will demonstrate the UK can afford its welfare state. But the question New Labour asks is whether it is good enough to be worth affording.

First, the foundations. The healthy state of public finances is not, it appears, a mirage. The fiscal situation is solid, in part, for a somewhat unexpected reason: the new government's toughness on public spending. Mr Brown is determined to implement what were widely viewed as the implausibly tough spending plans advanced by his predecessor. By and large, he is doing so.

In its Green Budget, published last month, the Institute for Fiscal Studies forecasts the ratio of general government spending to gross domestic product (excluding privatisation proceeds and lottery-financed spending) at 38.7 per cent in 1998-99. Even if real non-cyclical spending were to grow at 2¼ per cent a year from 1999-2000 – the highest of the rates suggested in the chancellor's pre-Budget Report of last November – this ratio is set to remain below 39 per cent at least until 2002-03.

If achieved, the spending ratio would remain below levels seen at any time in the past 30 years, with the exception of 1988-89 to 1990-91, when the economy was far more overheated than today. From a party that spent its 18 years in opposition wailing about brutal Tory spending "cuts", this toughness is startling.

According to the Organisation for Economic Co-operation and Development, the UK's general government spending ratio, at a little over 39 per cent this year, will remain between that of the US (32 per cent of GDP) and those of Germany (47 per cent), Italy (50 per cent) and France (54 per cent). Given the much less generous spending commitments of the UK, notably on pensions, the divergence from the continental norm may well grow in the years ahead.

Moreover, the Green Budget forecasts that general government receipts as a share of GDP will have jumped from a low of 35.9 per cent in 1993-94 to 39.2 per cent in 1998-99. This is partly because of economic growth, but still more because of the higher taxes brought in by the Conservatives. The big general government financial deficits of the early 1990s, which peaked at 7.8 per cent of GDP in 1993-94, are forecast to vanish by the millennium. The ratio of gross government debt to GDP is expected to fall from 52 per cent this year to below 40 per cent by 2002-03.

These forecasts look rosy. But they are not simply the product of an over-optimistic imagination. Already allowed for is the assumption that the economy is operating above full capacity, with growth above the trend rate. Nevertheless, the needed economic slowdown is forecast to be modest. The green budget expects growth to fall from 3¼ per cent this financial year to 2 per cent in 1998-99 and 1¾ per cent in 1999-2000 and 2000-01, before reverting to a trend rate of 2¼ per cent. It is possible to imagine a deeper slowdown, but little reason, as yet, to expect a serious recession.

On plausible assumptions, public finances look robust. An obvious question is whether the robustness of the finances is coming at the expense of sustaining the welfare state. The answer is that there is strain, coming particularly from the wages of public sector employees, the health service and buoyant parts of the social security budget. But, if non-cyclical spending did grow by at least 2¼ per cent a year in real terms from 1999-2000, the strain should be manageable.

The UK's welfare state is affordable. The question then is whether it is also tolerable. In a speech last month on "Building a Modern Welfare State", the prime minister asked how it was possible to justify a system in which 4m children were trapped in poverty and in which more was spent on disability and incapacity benefits than on schools.

As The Case for Welfare Reform, released by the Department of Social Security last month, pointed out: "Between 1979 and 1996 an extra £43bn was spent on social security in real terms – an annual increase of 4 per cent – yet poverty has increased dramatically." Again, "the proportion of households with no one working has doubled since 1979 to one in five". And "360,000 people face an effective tax rate of 80 per cent or higher because of the withdrawal of benefits".

Today's welfare system, concludes Mr Blair, is not a "pathway out of poverty, a route into work or a gateway to dignity in retirement". Rather it is a "dead end for too many people".

From New Labour's perspective, the welfare state has three flaws:

- The quality of the two central services, education and health, is at best poor. In relation to the rising expectations of an increasingly wealthy country, it is arguably becoming worse;
- The real incomes of many vulnerable groups – poor pensioners, single parents and millions of children – are very low;
- Transfer payments in general and means-tested benefits in particular create incentives against work and earning more than a minimal income, against stable family life and responsible parenthood and against saving.

In short, the UK welfare state does what it does badly and imposes substantial collateral damage to boot. This, not its budgetary cost, is the danger. What does the government intend to do about it?

The central idea is, as Frank Field, minister for welfare reform, argued in a speech last month, to move welfare from providing compensation for contingencies that have already occurred to a system that "acts to change people's circumstances for the better". It should focus on employability and work, instead of providing a life on benefit. The holistic approach can seem almost insanely over-ambitious. According to Mr Field, "the whole thrust of government welfare and education policy is geared to individuals achieving their full potential".

Even when looking up at the stars, one must keep one's feet on the ground. The fundamental problem is that the current welfare system – ludicrously damaging as it may sometimes seem – is the result of a delicate series of difficult trade-offs, subject to the overall revenue the government is prepared to raise. These trade-offs cannot be evaded:

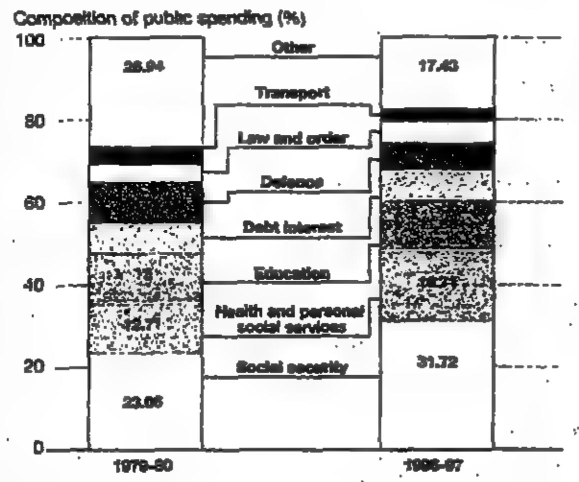
- The rate of withdrawal of benefits cannot be lowered without raising marginal tax rates on large numbers of people and increasing public spending;
- Support for households, rather than individuals, must affect decisions on household formation;
- Help to the needy cannot be given without means-testing, which is bound to lead to fraud; and
- A higher income in retirement cannot be guaranteed without affecting incentives to save.

Much general rhetoric is being heard from New Labour about the need for fundamental welfare reform. What nobody yet knows is how it is going to make these painful choices, if at all. The forthcoming Budget will give an indication of its intentions, as will the long-awaited green paper on welfare reform, expected at the same time. Soon it will become a little clearer whether, on the most difficult of the challenges it has chosen to confront, New Labour can do more than make grandiloquent pronouncements.

Martin.Wolf@FT.com

The rise of spending on the 'Big Three'

Composition of public spending (%)



Source: IFS Green Budget

Personal View • Helmut Reisen

Green light for danger

Credit rating agencies need radical reform if they are to do their job properly

The Asian financial and currency crisis of 1997-98 and the Mexican crisis of 1994-95 have again demonstrated how vulnerable emerging markets are to sudden and excessive swings in flows of private capital. The problem is a bit like a traffic jam. These build up as the number of cars increases partly because individual drivers do not take into account their personal contributions to congestion (unless there is road pricing). In the same way, emerging countries are vulnerable when the supply of foreign capital soars because private borrowers do not take into account the rise in the marginal social cost of a country's foreign debt.

In this analogy, sovereign credit rating agencies might be thought of like a traffic light: by flashing early warning signs, they help smooth the flow of money. At least, they are supposed to.

In fact, the evidence suggests that sovereign credit ratings are reactive rather than preventive.* As a result, they tend to amplify boom-bust cycles in emerging-market lending. It is rather as if the traffic lights flashed green whenever traffic was building up.

Credit rating agencies were conspicuous among the many who failed to predict the Mexican and Asian currency crises. Having failed to perceive the extent of problems as long as foreign money flowed in, the rating agencies then overreacted by downgrading the affected countries to junk status.

The trouble is that credit rating agencies are not at all separate from the financial markets as a whole. They do not have superior information on emerging-market economies. They have little scope for acquiring advance knowledge of matters that affect sovereign risk. And they share with investors the same views about what determines defaults. This can be seen by looking at the information on which sovereign-risk ratings are based, and the nature of sovereign risk itself.

First, sovereign-risk ratings are primarily based on publicly-available information, such as foreign debt and reserves or political and fiscal constraints. This makes them different from ratings of companies. With companies, credit rating agencies may have access to inside information from domestic corporate borrowers (such as acquisitions, new products and debt issuance plans). Such advance knowledge or better information can then be conveyed to market participants through ratings on private borrowers. This is not the case with sovereign borrowers.

Second, in the absence of a credible international mechanism to sanction a sovereign default the premium charged to reflect the risk of default is determined by a borrower's *willingness* to pay, rather than by his *ability* to pay. Borrowers know whether they are willing to pay. Lenders cannot be sure. It is also a problem of enforcibility: the authorities cannot give an absolute promise that in future they and their successors will put foreign capital to productive use or that future returns will be used to repay foreign debt.

Moreover, the sovereign rating agencies get most of their revenue from governments to provide a debt rating. Naturally, they are loath to downgrade their clients. This may well introduce 'downgrade rigidity' into ratings especially in periods of large capital inflows.

Unlike with private-sector ratings, then, sovereign ratings can hardly be interpreted as an indication that rating agencies lead the market by conveying new or superior information. Yet sovereign yields tend to rise when ratings worsen. Why are ratings so influential? The answer may well be that herd instinct, often reinforced by poor prudential regulation, give sovereign ratings the power to influence sovereign bond yields even though they add little to the market's information. Many institutional investors may not hold any form of debt security, except investment grade. Hence, sovereign ratings absolve money managers from making independent judgments about sovereign risk.

So reactive sovereign ratings tend to amplify boom-bust cycles. During a boom, improving ratings reinforce euphoric expectations and stimulate excessive capital inflows. During a bust, downgrading adds to panic among investors, driving money out of the country.

So what should be done? The answer is to turn sovereign ratings into proper early warning signals. Since part of the problem is that rating agencies get much of their revenue from borrowers, the industry will have to reorient its fee structure towards investors. Their dependence on borrowers is incompatible with the incentive to come up with timely negative rating. At the same time, prudential regulators should reconsider the role of sovereign ratings that they stipulate when institutional investors hold emerging-market assets. The removal of investment grading requirements for institutional portfolios might attenuate the boom-bust cycle in emerging-market assets. Unless sovereign ratings can be turned into proper early warning systems, they will continue adding to the instability of international capital flows, make returns to investors more volatile than they need be and reduce the benefits of capital markets to emerging countries.

**Emerging Market Risk and Sovereign Credit Ratings, by G. Larrain, H. Reisen, and J. von Maltzan, 1997, OECD Development Centre, technical paper No.124, available from http://www.oecd.org/dev/index.htm.*

The author is head of research at the OECD Development Centre

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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Retaliation threat by UN better than military strike against Iraq

From Professor Robert Neild.

Sir, The military and political consequences of bombing Iraq seem scarcely to have been addressed. Yet examination of them suggests that they might be seriously counter-productive.

Experience tells us that talk of wonder weapons that will strike targets with perfect accuracy and destroy them surgically should be discounted. Weapons and the persons who operate them never perform 100 per cent; and in this case the location of the places where Saddam Hussein is hiding things cannot be known with certainty and precision.

Since these and other factors make bombing less than perfectly reliable and since, furthermore, information after the event about what has been achieved by bombing is always imperfect, usually consisting of great immediate claims that are later punctured, it would be foolhardy for the US and Iraq's neighbours not to assume, after bombing, that Saddam Hussein still possessed some weapons of mass destruction: militarily, they might not be much better off than before.

Politically the act of bombing seems likely to produce enmity rather than friendship for the US (and its supporters) among Saddam Hussein's neighbours; to cause his people to rally behind him; and to damage relations with Russia and other Security Council members.

If, as the evidence suggests, Saddam Hussein's weapons of mass destruction cannot be eliminated by inspected disarmament or by bombing, the alternative is to prevent him using them by deterrence. For that purpose the UN Security Council might be asked to sanction immediate retaliation if at any time Iraq used the forbidden weapons. There would be no need for the US or other members of the Security Council to go back on their policies to get rid of chemical, biological or nuclear weapons. They possess sufficient weapons of other kinds to be able to inflict massive low-accuracy punishment on Iraq if it is needed. There seems a good chance that this policy would work and that it would enlist the support of those who oppose bombing now.

The present danger is that frustration, anger and a desire to look tough may cause the leaders of the US to act short-sightedly. As a close ally, the UK should point to the dangers and to this alternative.

Robert Neild,
Trinity College,
Cambridge CB2 1TQ, UK

Investment makes sense

From Mr D.A.A. Fagandini.

Sir, In your leader "French lesson, English farce", (January 31-February 1) you raised the question: "Why, pray, should taxpayers finance this scheme if it cannot be paid for out of revenue from customers?"

I do not recollect this demand from you or anybody else as motorways M1, M4, M5 or M6, not to mention those with double digits, were being laid out. Infrastructure investments serve the nation as a whole and it is a pity that that requires foresight and imagination that the French seem able to call upon more readily than we do. Were we better endowed when we opened the first section of the M1 to Birmingham? Just as UK industry in the 1950s needed that network, it now needs a functional rail link into its largest market for both passengers and freight. Is that so difficult to see?

Left to its own devices, the market has flooded the motorways with heavy goods vehicles with the result that we now wrestle with increasing congestion and pollution. Is this downside for ever to be preferred to taxpayers' investment in rail and other alternative forms of transport?

D.A.A. Fagandini,
6 Alleyn Park,
London SE21 8AE, UK

An institution loyal to Pope and church

From Mr Andrew Soane.

Sir, In your review of the style of Pope John Paul II ("In heaven's name", January 31-February 1), Opus Dei is referred to in passing as a "Spanish sect" – and nothing more – as if that were the description printed above our entry in the Catholic Directory.

If your journalist wanted to be factual, the correct phrase was "personal prelature", or simply "prelature", or even a generic term such as "institution".

A sect is a "dissenting or schismatic religious body" (Webster's Dictionary, 1993 edition), which is certainly not the case of an institution loyal to Pope and church, and set up as a personal prelature by the Holy See.

Apart from that, the phrase is quite insulting to all the British members of Opus Dei.

Andrew Soane,
director, information office,
Opus Dei Prelature in Britain,
5 Orme Court,
London W2 4RL, UK

World Bank's lauding of Asia economies raises questions

From Mr Stephen Hellinger.

Sir, World Bank President James Wolfensohn's Personal View (January 29) on the East Asian financial crisis is interesting for what he sees as right and wrong about such economies as South Korea's, Malaysia's, Thailand's and Indonesia's. Among the fundamentals that he says they got right is the development of an "outward orientation" – an emphasis that has been promoted and supported by the Bank, not only in the region, but worldwide.

What has been wrong, he stresses, are financial and corporate structures that are "not well suited to cope with the demands of an increasingly globalised economy" and that led to the misallocation of resources, ultimately leaving these economies vulnerable to a sudden collapse of confidence.

The obvious question then is: Why has the Bank lauded, and in some cases supported, these countries' entry into the global economy when they were not ready? If the Bank did not see these internal weaknesses, what does this say about putting the future of these economies in the hands of the Bank and its even more misguided sister institution, the International Monetary Fund?

Even more to the point, why is the Bank continuing to push countries with far more poorly developed internal structures to open their economies willy nilly to the free flow of capital, goods and services? Why is it continuing to insist on their implementation of structural adjustment programmes that destroy the local economy by directing productive resources "outward" while exposing it to competition that it is not yet prepared to match?

After almost 20 years of such policies and near meltdowns in Mexico and east Asia, we are entitled to a good deal of scepticism and to some serious answers and accountability.

Stephen Hellinger,
president,
The Development Group for Alternative Policies,
927 15th Street, NW,
4th floor,
Washington, DC 20005, US

FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700
Tuesday February 3 1998

The road to recovery?

Calm may be returning to *Asia's financial markets at last.* The region's stock markets bounced upward yesterday, and the currencies of the "IMF Three" over the past week have been fairly stable. Does this mean that the Asian crisis is finally coming to an end?

The main reason for renewed hope is that the countries worst affected by the crisis – particu*larly Indonesia and* South Korea – are now tackling their debt problems.

Previously, reform efforts had concentrated on macroeconomic management and the restructuring of the financial sector. But the immediate problem was the inability of private sector financial institutions and companies to pay their debts. This caused a *scramble for* hard currency, which drove the exchange rate down further. It also led international financial institutions to lose confidence entirely in the creditworthiness of the affected countries, leaving many companies unable even to obtain basic trade *financing loans.*

But last week saw a deal between Korean banks and their creditors, and the announcement of a payment freeze for Indonesian companies, intended as the first stage in a full restructuring. These *will ease the short-term liquid*ity crises of these countries, and allow them some breathing space to deal with the problems that lie ahead.

There is a long way to go, though, before the affected Asian economies can really be said to be on the road to recovery. There is a huge amount of economic pain to come. Prospects for output growth this year are dim, and there will be severe upward pressures on unemployment and inflation rates.

This temporary slowdown in growth is inevitable. But, more worryingly, there is a risk that government inaction could lead the affected countries to slide into a prolonged period of Japanese-style debt deflation and economic stagnation.

The impetus for the reforms that the governments of Korea, *Indonesia and Thailand have* implemented so far came from the financial markets. It became clear that diverging from IMF conditions carried a heavy penalty. If the markets stabilise, the authorities could slip back into complacency. They might be tempted *to put off the painful* financial sector restructuring that is crucial to their future *economic health.* This would leave in place a crippling debt overhang, ending any hopes of a speedy recovery.

Stable financial markets are a necessary condition for economic recovery. But they are far from sufficient. Asian governments *will have* to show themselves willing and able to continue their reforms well after the immediate crisis is over if their economies really are to bounce back.

US jam today

The 1999 budget proposals that President Clinton submitted to the Congress yesterday are built on the first surplus to be recorded *in the US for 30 years.* That is in itself a remarkable achievement. But the political possibilities that the surplus presents have to be set firmly in an economic context. To his credit, the president has come up with a reasonably sober set *of ideas, albeit presented with* a flurry of smoke and mirrors.

The surplus has arrived three years ahead of schedule, and the budget profile has improved dramatically even in the past few months as tax revenues have surged well above earlier *expectations. The US economy* has now recorded 82 straight months of growth, making this the third longest expansion in the country's history. This is not the stage in the economic cycle to press down on the fiscal accelerator.

The president's spending proposals call for continued tight controls on discretionary spending – *the* defence budget *is* unchanged in nominal terms, following the recent sharp squeeze – and some increases in the areas with most popular appeal: families, healthcare, environment and education. They involve a fair measure of *creative accounting.* In particular, a measurable slice of the extra spending is to be financed by higher revenues from the tobacco industry – even though Congress has still not approved the proposed settlement with the tobacco industry.

This is pure politics. The aim is to put the Republican majority on the spot: if they reject the welfare proposals, so the argument will run, it will be in order to protect their friends in the tobacco industry. There will be scope enough for this kind of *posturing as mid-term election* campaigns gather momentum in the months ahead.

By international standards, the US now looks in sound fiscal shape. Its deficit already compares favourably with others in the Group of Seven, and its *debt levels* – although vast in nominal terms – are not outlandish either. As a proportion of nominal gross domestic product, the government's gross financial liabilities stand at about 61 per cent, compared with 77 per cent for the members of the European Union.

Yet projections of fiscal surpluses soaring ever higher over *the next decade are pure fan*tasy, while enormous problems in financing the social security trust fund lie just a few years ahead.

Although the budget proposals will no doubt set political sparks flying over the coming months, the president and his opponents have a shared interest in keeping the debate within prudent *limits.*

EU-US trade

The idea of an open *transatlantic* market has powerful appeal for politicians and businessmen alike. Although the US and the *European Union* have already lowered many trade barriers, plenty remain – and new ones are emerging. If the preliminary US-EU talks on a *possible free trade agreement* led to further liberalisation, so much the better. But the project is fraught with risks, whether it moves ahead or fails.

Politically, the main attraction of an agreement is that it might help re-establish the US free-trade coalition, in disarray since President Bill Clinton failed last year to win fast-track negotiating authority. A deal with Europe could find favour in Congress and might lessen US hesitations about fresh multilateral liberalisation. That would be particularly valuable now that a rising US trade deficit with Asia is in *prospect.*

Although the US and EU have steadily reduced border barriers, and agreed in the World Trade Organisation to open *their financial* services and telecommunications markets, they are far from free trade paragons. In the US, the Jones shipping act, high textile tariffs and Buy-American laws remain, as do the EU's farm policy and restrictive audio-visual legislation. Brussels' cumbersome methods for approving new food products are a source of growing trade tensions, while on both sides of the Atlantic international air transport policy is organised on central planning *lines: The scale of* these obstacles – and the power of special interest lobbies – defy rapid liberalisation. A bilateral approach might be a good start.

However, any deal also risks being perceived as attempted discrimination against the rest of the world. *The US and the EU* need to commit themselves firmly and quickly to extend to all trade partners the benefits of any transatlantic liberalisation. *Failure to* do so could prove internationally divisive and jeopardise the integrity of the multilateral trade system.

Suspicions of US and EU *motives* can only be increased by US insistence that any agreement contain provisions on labour and *environmental standards* – particularly absurd in the US-EU context. Its demands lack persuasive economic rationale and seem designed to pander *to special interest lobbies,* prominently labour unions.

Some in Europe are sympathetic to the US stance. Others may argue that a transatlantic *deal* which compromised on some multilateral trade principles would be justified if it helped keep the *US market* open. That price would be far too high. Global free trade cannot be defended by chipping away at its foundations.

Sour taste in Germany

Peter Norman looks ahead to the country's general election and finds the rival parties strife-torn and in bad odour with voters

It is still 236 days away. Yet the campaign for Germany's *autumn general* election is already in full swing. This is not because everyone is seized with eager anticipation about a poll still months away. It is because of the quirks of the country's federal system, coupled with the indecision of the opposition Social Democrat party over who should lead them into the vote. These *two have combined to turn* a state poll in Lower Saxony on March 1 into a dummy run for the national election for the Bundestag, the lower house of parliament, on September 27.

The poll in Lower Saxony is crucial in two ways. First, it will be influential in determining who will be the SPD candidate for chancellor: Gerhard Schröder, the *state's prime* minister, or Oskar Lafontaine, the party leader. Second, because Chancel*lor Helmut Kohl is heavily* involved in the Lower Saxon poll, it will be a vital test of the political stamina of Germany's longest-serving post-war leader, who will be trying for his fifth successive election victory in autumn.

Germany's media and political *class is excited about all this,* but the public is not. Opinion polls suggest that, after nearly 16 years, voters are mightily fed up with Mr Kohl and the three-party coalition formed by his Christian Democratic Union party, its Bavarian sister the Christian Social Union, and the small Free Democrat Party. Nor are electors impressed by the alternatives.

Although the economy is growing at about 2.5 per cent a year, unemployment, at 4.5m, is at a record level and rising. Real incomes have stagnated and anxiety is rife about the effects of globalisation and the cost of welfare. The big issue of the coming months – *the euro* – *is opposed* by nearly 70 per cent of Germans.

Faced with these challenges, politicians in Bonn have resorted to hectic inaction, a result of the legislative gridlock between the government-controlled Bundestag and the SPD-dominated *Bundesrat, which represents the* federal states.

There will be no significant reforms before the September poll. In particular, the government has given up hope of negotiating with the opposition any reform of a tax system that is *complex and which even the gov*ernment says is unfair.

Reflecting and fuelling the nation's sour mood, the main parties have started the year split by internal disputes. On the SPD side, the intrigue has a lot to do with personal rivalry as Mr Schröder and Mr Lafontaine manoeuvre for the top job. In the CDU, the tensions are also to do with different ideas about the kind of coalition Germany can live with. Mr Kohl wants to continue the present one: his deputy and designated successor Wolfgang Schäuble would be prepared to enter a "grand coalition" linking the CDU and SPD.

Coalition politics is *becoming* divisive all over Germany. The state of North Rhine-Westphalia is ruled by the SPD and the environmentalist Greens, a combination that could possibly form a national government. But this "red-green" coalition narrowly avoided collapse last month in the state over a vast coal mining project that pitched jobs against nature. Jürgen Trittin, one of the Greens' leaders, said afterwards: "They don't really like the Greens. In fact I would go so far as to say: perhaps they hate us."

It is a similar story in the government. Plans to allow homes to be bugged to combat crime have reopened a rift in the FDP between the tax-cutting, free-market federal leadership that favours the move and the party's liberal civil rights wing. In the CSU, the European single currency continues to divide Edmund Stoiber, Bavaria's Eurosceptic prime minister, and Theo Waigel, *Bonn finance minister* and party leader.

Adding to political jitters are growing doubts about the chancellor's health and authority. At 67, Mr Kohl is showing his age. His public speeches are often punctuated by involuntary gasps that appear like yawns. Although he invariably starts by addressing the challenges facing Germany in the 21st century, he tends to lapse into ruminative discourse about the past, dwelling on the horrors of the second world war in his native Ludwigshafen or times spent discussing Europe with his old departed friend, President François Mitterrand of France. Witnesses say his contributions in cabinet are also frequently retrospective.

These traits were clear at a recent party congress on Europe in Bonn. Equally striking was how Mr Schäuble sat alongside, stony-faced through most of his leader's speech, moving only to drum the table with his fingers or cover his face with his hands.

Against this background, it is perhaps not surprising that the chancellor and his government have experienced a sustained slide in public support. According to Forschungs Gruppe Wahlen, a political research company, 65 per cent of voters think Mr Kohl's coalition *is making a bad* job of running the country. That, according to Dieter Roth, a senior researcher, is the worst result since the company began regular monthly polls 21 years ago.

FGW's most recent survey for the ZDF television channel and *the Süddeutsche Zeitung* newspaper found that 71 per cent of those polled thought it was time for other parties to take over. But which other parties? Only 28 per cent thought the SPD would do any better running Germany.

Hence there is a confusing *array of coalition possibilities.* Recent weekly opinion polls show the SPD and Greens with combined support of about 51 per cent; CDU and CSU with about 35 per cent. That would seem to put the fragile red-green combination in a strong position. But much *depends on* the FDP. *Polls show* it struggling to surmount the 5 per cent threshold for entering *the Bundestag. However,* Mr Roth says these polls fail to reflect the party's relatively strong support in the second vote for candidates on party lists in Germany's system of proportional representation. This factor makes it "extremely probable" that the FDP, although divided and absent from most state parliaments, will win enough sup*port to be returned to the Bund*estag in Bonn.

When asked, Mr Kohl insists that the *FDP* will succeed. He also draws comfort from the fact that the coalition at this stage of the 1994 campaign was even further behind.

Yet a time of general disenchantment with mainstream politics harbours great scope for sur*prises. The Party of Democratic* Socialism, the former East German Communist party and a pariah among parties, would throw all conventional calculations awry if it were returned to the Bundestag in sufficient strength to deprive an SPD-Green coalition of a majority.

The way would then be open for a grand coalition of CDU and *SPD* in Bonn. Although only one of several possibilities, it would herald a sea-change in German politics. Such an alliance, which was last seen in Germany in 1969, has an unhappy history, for it tends to drive opposition out of parliament and on to the streets.

Grand coalitions have always been anathema to Mr Kohl and the creation of one would almost certainly trigger the departure of Europe's senior statesman from the national political stage.

Bonn beckons for Saxon star

Lower Saxony, the sprawling northern German state, is Gerhard Schröder country. In Hanover, its capital, the *state prime minister's face* beams from a thousand election posters. After eight years' rule, Mr Schröder, 53, still outscores his rival from chancellor Helmut Kohl's Christian Democratic Union by more than two to one in personal opinion poll ratings.

But Mr Schröder's ambitions are greater still. On March 1 he hopes his regional power base *will provide a springboard for an* assault on Bonn in the federal contest on September 27. A strong performance in the state elections would prove that Mr Schröder's Social Democratic party – after a lacklustre year – can, after all, win elections.

"If we only hold stable in Lower Saxony, that would be a turning point for the SPD," says Wolfgang *Senff, the party's SPD* general secretary in Lower Saxony.

Mr Schröder says he will not seek the SPD's chancellor candidacy if the party slips more than two percentage points below the result of the 1994 election. In *fact polls suggest he may even* exceed the 44.3 per cent vote it won then.

May the best man win: Schröder (left) and his rival, Lafontaine

In troubled economic times – about 12 per cent of the state's workforce is unemployed – Mr Schröder wins at least some votes with his street charm and willingness to break convention. Earlier this month he pledged more than DM1bn (£300m) of public money to buy Preussag Stahl, a local steel company about to be taken over by a for*eign company. The move was* scorned as "antiquated state intervention" by rivals. But Mr Schröder says simply that market economics are not always *right – particularly when jobs* are at stake.

Will it all be enough? Mr Schröder could still lose his absolute majority in Lower Saxony on March 1 if the small liberal Free Democratic Party reverses a disastrous 1994 per*formance and re-enters the state* parliament.

Mr Schröder's ambitions to be *chancellor depend heavily* on Oskar Lafontaine, the SPD's federal chairman and failed chancellor candidate in 1990, who wants to run again in September. In Bonn, the leftwing, traditionalist Mr Lafontaine controls the party and policy ruthlessly; Mr *Schröder looks slightly* gauche in his dark three-piece suits and spotty ties.

But in Lower Saxony the roles are reversed. "Lower Saxons are proud of the fact that one of them could be a federal chancellor," says Mr Senff. "And a federal chancellor could do a lot for his own state."

Ralph Atkins

· OBSERVER ·

The politics of envoy

■ There was some surprise around Bonn when it emerged that Immo Stabreit is to stay on as Germany's ambassador in Paris for another six months: he has just celebrated his 65th birthday, which is normally rigorously observed as the moment when diplomats retire.

The official line is that, with Germany's triple whammy of international presidencies next year – the European Union, Western European Union and G7 – foreign minister Klaus Kinkel *did not want to move senior staff* around. But there may be more to it than that.

The favourite for France is Peter Hartmann, whose current *top foreign ministry post is* coveted by Joachim Bitterlich, Chancellor Helmut Kohl's foreign affairs adviser and the man generally viewed as really responsible for Bonn's foreign policy. A dedicated Francophile who had himself fancied a spell in Paris, Bitterlich is believed to be thinking the unthinkable and planning for a time when his master, who faces a tricky general election in September, *may not be in power.*

But Bitterlich has a rival: Wolfgang Ischinger, head of the foreign office's political department, whose career hasn't been damaged by his strong connections to the liberal FDP – the junior coalition partner which has held the foreign ministry for nearly 30 years.

Perhaps Ischinger is also contemplating life beyond the general election: after all, the FDP may not be in parliament, let alone government.

Lots of bottle

■ Persistent rumours that this week's merger of UBS and Swiss Bank Corporation might have to be renegotiated because UBS has lost a bundle on Far Eastern derivatives have been firmly *denied all round. But something* is brewing. A commemorative ale – Fusions Bräu, or the United Beer of Switzerland – has gone on sale, and the brewer *reports strong demand* particularly in Zurich, UBS's home town, which will bear the brunt of the job cuts. Proceeds will go to a special fund for out-of-work bank staff.

Buffett bonus

■ It's hardly on the same scale as Ted Turner's recent largesse, but Warren Buffett, America's most successful investor, has just given $50,000 to the Campaign Reform Project. He backs instant disclosure of political campaign contributions and an end to funding in an attempt to gain political favours.

Campaign finance reform is taking up fewer column inches than Monica Lewinsky in the US press these days, but recent polls indicating that Americans don't *really care what Bill did or* didn't do with Monica suggest that the issue could soon be back on the agenda.

But the Sage of Omaha, never one to seek the limelight, doesn't plan to lobby for his new cause. Again in apparent contrast to Turner, Buffett *recently* observed to reporters: "I do not think that a rich guy mouthing off on issues is the most attractive thing on the world."

Toothsome

■ Most international airlines *offer passengers* hard-boiled sweets. Finnair has gone one better and appointed a hard-boiled confectioner to its top job. Keijo Suila, 52-year-old head of Leaf Group, purveyor of pastilles and cough drops to the Nordic countries, is to succeed *Antti Potila, the European* airline industry's longest-serving chief executive, early next year.

It's a surprise choice: commentators expected a politician or government official. But choosing an industrialist seems a sweeter move while the *Finnish-flag carrier is being* strafed by arch-rival Scandinavian Airlines System on intra-Nordic routes.

Competition intensified last month when SAS announced plans to expand Finnish operations by acquiring a small local carrier: Finnair responded *by increasing services from* SAS's Stockholm hub to third-country destinations.

Fortunately, Suila is no stranger to sticky situations. At Leaf Group – a subsidiary of Finland's Huhtamäki food outfit – he helped restore production *after exceptionally hot and* humid weather almost caused a messy meltdown on the production lines last summer.

Can he repeat the performance *at Finnair? We shall just have to* suck it and see.

Super salesnerd

■ Bill Gates's plan to drop in on Brussels after he's through with the hot air of Davos has sparked speculation in the computer industry that the European Commission's competition probe into Microsoft must be nearing a *climax. But the bespectacled* billionaire was yesterday insisting that he won't be meeting the European Union's trust-busters – he just wants a cosy chat with Commission president Jacques Santer about how Microsoft might sell more to the Brussels Eurocracy, one of its most valued customers.

The Financial Times

100 years ago

Failure To Compete
Austrian manufacturers, and in particular the Hungarian Staatzbahn Works of Budapesth, have been pushing business for the past *three years to the detriment* of British manufacturers. In this case, as in ever so many *others with which a perusal* of consular reports has made us familiar, our stolid disregard of what customers require is the main cause of successful competition by our foreign rivals. Speaking of a special price of machinery *exhibited by this Company,* our Consul says that, "if lacking in the solidity of work *found in the British-made* engine of the same type, it attracted attention at the Kieff exhibition by its showy finish and lightness of design."

50 years ago

Iraq May Reject Treaty
It was reliably learned in Baghdad last night that the Iraqi ministerial committee formed to deal with the *Anglo-Iraqi Treaty with* Britain, signed on January 15, has decided to reject the Treaty. Britain will be informed of the decision soon, it was believed.

FINANCIAL TIMES
Tuesday February 3 1998

Bank fees fall after bid war for share offerings

Four groups compete for Polish telecoms sell-off

By Christopher Bobinski in Warsaw and Vincent Boland in London

Fees earned by investment banks for handling big European share offerings are about to hit fresh lows after a bidding war broke out to win a $2bn mandate for the flotation of Poland's state telephone company.

One of the banking consortia seeking the mandate to advise on and lead the Telekomunikacja Polska (TPSA) transaction is understood to have offered to do part of the job for less than 1 per cent of gross proceeds.

Fees for big privatisation deals have fallen below 2 per cent of the value of a transaction in the past few months. This compares with an average of 2.5 per cent for much of 1997 and much higher levels when Europe's privatisation drive began in the early 1990s.

Intense competition among many banks for a declining number of headline deals is behind the fall, and is already persuading some of the global houses to concentrate more on corporate business, which is more remunerative.

The aggressive pricing for TPSA has come from four groups – Goldman Sachs and UBS, Credit Suisse First Boston and Deutsche Bank, HSBC and Lehman Brothers, and Schroders. Each group is in partnership with a Polish bank to improve access to the local market and provide domestic distribution for TPSA shares.

The flotation of up to 20 per cent of TPSA, due in the summer, is one of the most prized European deals of 1998 and will open up the new Polish government's sell-off programme. There are plans to privatise LOT, the airline, and PZU, an insurance company, as well as the banking and petrochemicals sectors.

Five other bank consortia were eliminated from the TPSA deal because they failed to meet the requirements of Poland's strict public tender laws. These banks have said privately that their bids to run the flotation were not judged on their merits. They contend that the public tender law is inappropriate for selecting investment banking advisers.

CSFB's fee level is believed to be the lowest of the four. Bankers familiar with the tender said the Goldman Sachs, HSBC and Schroders teams had offered fees of about the same level.

But fee comparisons are difficult because the banks have had to quote both fixed fees and success fees for domestic and foreign tranches of existing and new TPSA shares.

"The government has still not made up its mind as to how it will divide up the tranches of existing stock it wants to sell and how big the offer of new stock will be, or where it will be placed," one banker said.

Poland's treasury ministry, which is handling the tender, is expected to announce the winner this week.

Clinton's budget plan forecasts a surplus of $9.5bn

By Mark Suzman and Bruce Clark in Washington

President Bill Clinton yesterday unveiled 1999 budget proposals that foresee a surplus for the first time in three decades.

The projection of a $9.5bn surplus in the year starting next October reflects a fast-expanding tax base, and a much rosier outlook for public finances.

Mr Clinton, who has been dogged by a sex scandal for the last two weeks, said the proposal marked an end to "an era of exploding deficits" which had held back economic growth and paralysed the political system. The shortfall peaked at $290bn in 1992.

The budget proposes more money for education, childcare and medicine – partly covered by anticipated extra revenues of $65.5bn over the next five years from a tobacco settlement.

Assuming that Congress approves the necessary legislation, the settlement – aimed at resolving outstanding legal disputes between the tobacco industry and the states – would involve an increase in the price of cigarettes.

Under yesterday's proposal, the $9.5bn surplus expected in the year starting next October would climb to nearly $80bn in 2002, and a total surplus of $218.8bn would build up over the next five years.

Mr Clinton said the total surplus over the next decade could amount to $1,000bn.

"The deficit was more than an economic reality, it was a powerful symbol that government had simply failed to meet its most basic obligations," he said. "We have worked hard to put our fiscal house in order."

However, Mr Clinton reaffirmed that any surplus would be used as a reserve until the social security fund had been restructured.

The state-funded pension system is expected to run into difficulty early in the next century as the numbers reaching retirement age soar. "We have a great opportunity to tell our children that when we retire and start drawing social security, it isn't going to bankrupt them," he said.

Mr Clinton also promised new funds for a range of social and educational programmes. They range from hiring 100,000 new teachers to tax breaks for companies which set up childcare programmes.

However, he insisted that his social programmes would be no threat to the budget, as they were all either self-financing or paid for by revenue from the tobacco deal and some higher corporate taxes.

Editorial Comment, Page 13
Tobacco goldmine, Page 4

GTech boss tried to bribe Richard Branson, jury rules

By John Mason and Scheherazade Daneshkhu in London

The reputation of GTech, the US lottery company, suffered its worst blow yesterday. A jury in London decided its chairman, Guy Snowden, had attempted to bribe billionaire entrepreneur Richard Branson in an attempt to make him drop his bid to run the UK national lottery.

The verdict of the High Court jury, which awarded Mr Branson, founder of the Virgin group, damages totalling £100,000 ($166,000), prompted Mr Snowden's immediate resignation from the board of Camelot, the consortium operating the lottery.

GTech is the world's largest supplier of lottery equipment and is a 22.5 per cent partner in Camelot. It runs more than 70 lotteries in five continents including most of those in the US. Despite the company's repeated denials, it has faced a succession of allegations about its business practices, although none has been proved.

Mr Branson said the verdict – in a libel action in which both men were suing each other – had left him "delighted" and "totally vindicated" in making the bribery allegation against Mr Snowden. He called for the resignation of Peter Davis, director-general of Oflot, the UK lottery regulator, questioning why Camelot had been given the licence when Mr Davis had admitted in court he had serious concerns about GTech's business methods.

"Camelot should never have been allowed to pass the probity test with GTech as shareholders," he said.

Mr Davis, however, said he would resist calls for his removal before his five-year tenure ends in October this year. His "veracity" had not been challenged in court, he said. Chris Smith, the UK government's culture secretary, said the affair was "a very serious matter" and promised to monitor the situation to ensure public confidence in the lottery was retained.

Mr Branson first made the bribery allegation in a BBC television programme in 1995. He said Mr Snowden had offered him the bribe at a lunch at Mr Branson's London home in September 1993. Mr Snowden had said to him: "I don't know how to phrase this, Richard. There's always a bottom line. In what way can we help you? I mean, what can I do for you personally?"

In the two-way libel action, Mr Snowden sued Mr Branson for making the allegation. The Virgin founder counter-sued Mr Snowden and GTech for calling him a liar.

Mr Snowden said he was deeply disappointed by the verdict, which was "a very real setback" to his career.

Reports and analysis, Page 8

Talks could improve working conditions

Continued from Page 1

argued that initial talks should focus on part-timers.

The timing of the employers' agreement "in principle" to begin talks has aroused union suspicion. They believe separate discussions on employee information and consultation will be delayed, and officials will plead limited resources.

The Commission wants the information and consultation negotiations to establish a "fundamental right" for workers to be consulted by employers on decisions affecting them. The idea is strongly opposed by many employers in the UK and Ireland.

Zygmunt Tyszkiewicz, secretary-general of the Unice employers' federation, said companies needed fixed-term contracts for flexibility, but added: "It is right there should be an objective reason for them. If you are a responsible employer, you need to commit to your employees and they need to commit to you."

THE LEX COLUMN

Dead tiger bounce

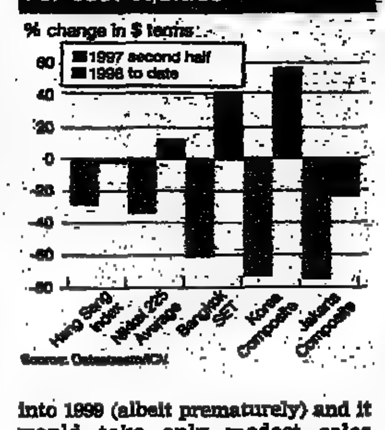
Panic about missing the boat is driving investors back to Asia perhaps even more rapidly than it drove them away. The vicious circle that operated on the downside has gone into reverse: foreign purchases of stock are supporting local currencies, reducing the need for high interest rates and taking some pressure off the real economy. This may not seem a good advertisement for efficient markets. But there is some method to the apparent madness: markets had to overreact in order to provoke the policy changes that now make the earlier falls look excessive.

Moreover, though some of this year's bounces look dramatic, they only partly compensate for the falls. South Korea, the star, has risen nearly 60 per cent this year in dollar terms; but the fall since the middle of last year is still nearly 60 per cent. Similarly, Thailand is down almost 50 per cent in dollar terms since mid-1997, despite a 40 per cent rally this year.

Of course, not all the lost ground should be made up. First, the starting point was a bubble and hence not a realistic target. Second, the financial crisis has caused real economic damage. In particular, it has exposed the vulnerability of many companies to high debt burdens. Given the need for balance-sheet restructuring throughout the region, shareholders could in many cases find themselves diluted out of existence. Indeed, some of the best opportunities for would-be investors could come from participating in this restructuring.

FTSE Eurotop 300 index
1075.7 (+21.0)

Far east equities



Source: Datastream/ICV

Glaxo/SmithKline

The prospect of Glaxo Wellcome and SmithKline Beecham combining has acted like a mixture of caffeine and amphetamine on their already lively share prices. Since mid-January, when speculation about a SmithKline deal set in, each has seen its share price jump by a third. The combined group's market value of £118bn ($193bn) is nearly 30 times forecast after-tax profits of more than £4bn for 1999. Another way of looking at it is that the combination is worth £30bn more than the two separately. Are these enormous figures realistic?

Take the prospects for earnings. Assuming that SmithKline's profit growth last year offset Glaxo's decline, their combined net profits were about £3bn. Estimates for cost savings range from £1bn to £1.5bn, say £800m after tax. Put all that into 1999 (albeit prematurely) and it would take only modest sales growth to send net profits above £4bn. Such a step change in profits looks plausible.

The fancy price/earnings ratio of nearly 30 for 1999 and the implication that £30bn in value has been created are harder to swallow. First, as cost-cutting is largely one-off, valuing these on a multiple of 30 would be excessive. Using more conservative multiples suggests value creation of £20bn at most. Second, even if drugs output is increased, some profit gains will be competed away by rivals – especially if they follow suit with copycat mergers. And healthcare providers will surely expect some of the benefits to be passed through in lower prices.

AHP

Having been jilted by SmithKline Beecham, American Home Products looks vulnerable. After flirting so openly with a merger, it can hardly return to a strategy of high-minded independence – especially since those talks focused investors' minds on the group's weaknesses: a relatively slow growth rate, no clear management succession and the large but unquantified liabilities surrounding its diet pills.

Perversely, this may end up benefiting AHP's shareholders. The weaker the group's position, the more radical its thinking will have to be. One sticking point in the AHP/SmithKline negotiations was apparently that both bosses insisted on the top job. In future negotiations, John Stafford, AHP's chairman, may not have that luxury. Since there are few drug companies left of similar size, with which AHP could pull off a merger of equals, it may have to consider a combination with a bigger one.

Europeans, such as Novartis or Roche of Switzerland, would be attracted to its strong position in the US. AHP would end up as the junior partner, but in a stronger company. Alternatively, the US group could try to swallow a smaller rival like Pharmacia & Upjohn with which it has a fair degree of overlap. While defensive, such a takeover would produce substantial cost savings.

Given the high likelihood of corporate activity, AHP's 20 per cent discount to its US peer group seems nonsensical. Having been left on the shelf once, it will probably be shamed into action.

Rank Group

The 4 per cent rise in Rank's shares on the resignation of a dissident director needs questioning. Sure, the shares have underperformed the market by 44 per cent since the start of 1997 and so any good news is received with abject gratitude. But hard-headed scrutiny of the company's ambitious capital expenditure programme is more appropriate.

Cash-rich after selling its stake in Rank Xerox, the group has undertaken a smallish share buy-back, but otherwise ploughed around £1.4bn ($2.3bn) into businesses such as Butlin's and Oasis resorts, Mecca bingo and the Hard Rock Café chain. Yesterday's announcement of a further $90m investment in a new range of basketball restaurants to prop up the ageing Hard Rock brand shows Rank is still prone to spend its way out of trouble.

The trouble is that many of Rank's capital-intensive businesses may fall out of fashion before they earn a return in excess of the company's cost of capital. Most themed restaurants have short shelf-lives, as Rainforest Café and Planet Hollywood's recent difficulties show, and are rarely as differentiated as managements claim. And though Rank is the clear market leader in bingo, competition may be intensifying now that Vardon and Bass (and perhaps soon First Leisure) have passed the baton to lower-cost venture capitalists. Unless the company shows soon that its capital expenditure programme is bearing fruit, shareholders should start to question whether another buy-back is not in order.

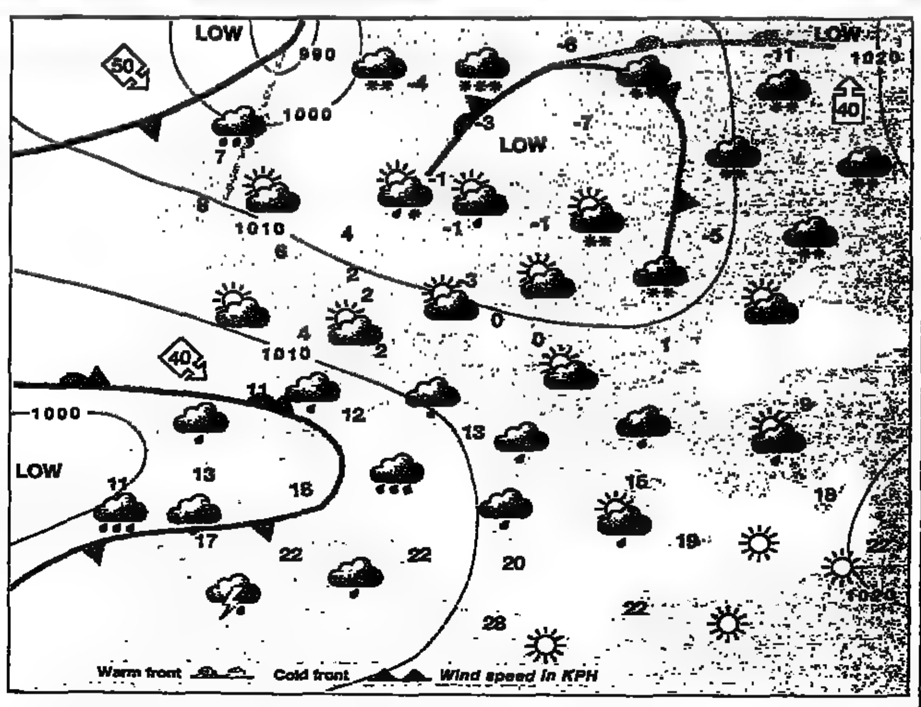
FT WEATHER GUIDE

Europe today

Scandinavia will be unsettled with widespread snow. The snow will be more showery in the north but southern and eastern parts will be mostly cloudy with steady and at times heavy snow. The Low Countries, Germany, Austria and Switzerland will have sunny spells and scattered wintry showers. Southern France will be largely cloudy with rain but elsewhere it will be dry with some sun. Much of the Mediterranean will have rain, steady and heavy at times. The far west of the Mediterranean will be dry and mostly sunny. Eastern Europe will be cold with snow.

Five-day forecast

Scandinavia and eastern Europe will remain cold with further snow. Northern and central Europe will be dry with plenty of sun but overnight fog will be a problem. Rain will arrive in western Europe towards the end of the week. The Mediterranean will remain unsettled with further rain in many parts.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

	Maximum Celsius										
		Beijing	Cloudy 1	Cardiff	Fair 7	Frankfurt	Snow 2	Madrid	Cloudy 13	Rangoon	Fair 35
		Belfast	Shower 7	Casablanca	Thunder 20	Geneva	Fair 5	Majorca	Thunder 18	Reykjavik	Snow 1
Abu Dhabi	Fair 25	Belgrade	Fair 3	Chicago	Cloudy 2	Gibraltar	Rain 16	Malta	Fair 20	Rio	Fair 34
Accra	Fair 33	Berlin	Snow 1	Cologne	Sleet 4	Glasgow	Shower 7	Manchester	Fair 5	Rome	Rain 13
Algiers	Shower 22	Bermuda	Fair 22	Dakar	Sun 25	Hamburg	Sleet 2	Manila	Fair 30	S. Frsco	Rain 18
Amsterdam	Fair 4	Bogota	Cloudy 21	Dallas	Cloudy 18	Helsinki	Snow -6	Melbourne	Sun 24	Seoul	Cloudy 3
Athens	Cloudy 17	Bombay	Sun 34	Delhi	Fair 23	Hong Kong	Cloudy 22	Mexico City	Sun 23	Singapore	Thunder 31
Atlanta	Rain 9	Brussels	Fair 4	Dubai	Fair 25	Honolulu	Fair 27	Miami	Thunder 24	Stockholm	Snow -3
B. Aires	Fair 26	Budapest	Fair 2	Dublin	Fair 8	Istanbul	Fair 10	Milan	Fair 9	Strasbourg	Fair 2
B.ham	Fair 5	C.hagen	Snow 1	Dubrovnik	Rain 12	Jakarta	Thunder 30	Montreal	Cloudy 2	Sydney	Fair 29
Bangkok	Fair 34	Cairo	Sun 24	Edinburgh	Fair 7	Jersey	Fair 8	Moscow	Snow -9	Tangier	Thunder 17
Barcelona	Rain 15	Caracas	Fair 29	Faro	Shower 18	Johannesburg	Fair 25	Munich	Fair 2	Tel Aviv	Fair 22
						Karachi	Sun 28	Nairobi	Fair 27	Tokyo	Shower 10
						Kuwait	Fair 21	Naples	Shower 16	Toronto	Cloudy 2
						L. Angeles	Rain 19	Nassau	Thunder	Vancouver	Rain 10
						Las Palmas	Fair 26	New York	Cloudy 10	Venice	Fair 6
						Lima	Cloudy 29	Nice	Shower 12	Vienna	Fair 2
						Lisbon	Shower 14	Nicosia	Fair 18	Warsaw	Snow -2
						London	Fair 6	Oslo	Snow -4	Washington	Cloudy 11
						Lux.bourg	Cloudy 1	Paris	Fair 4	Wellington	Fair 22
						Lyon	Fair 5	Perth	Sun 29	Winnipeg	Cloudy -2
						Madeira	Shower 20	Prague	Fair -3	Zurich	Fair 4

FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

Seoul rally may be false dawn

The Seoul stock market has been transformed from one of the worst performers in 1997 to the best in the past month. But yesterday's 4.2 per cent fall in the composite index to 543.68 indicated that the rally could be temporary. Share prices are not as cheap as a month ago and the market appears set for profit-taking. Page 36

Big changes lie behind Dasa revival

Daimler-Benz is unlikely to be too troubled by Edzard Reuter's memoirs, published next week, in which he attacks the German industrial group that ousted him as chairman. Manfred Bischoff (left), chief executive of Daimler-Benz Aerospace, which was the main source of the group's woes, has announced buoyant revenues and a full order-book. Big and brave changes lie behind Dasa's revived fortunes. Page 18

BNP Prime Peregrine lifts red-chip index
The red-chip index rose more than 20 per cent on news of the formation of BNP Prime Peregrine, a regional investment bank, controlled by France's Banque Nationale de Paris. Francis Leung of Peregrine, Hong Kong's failed investment bank, is executive vice-chairman. Page 17

Cisco's low-profile approach pays off
Cisco Systems, the leading US data networking company, has avoided the regulatory involvement that has dogged Microsoft and Intel. The reasons are that Cisco has fewer corporate enemies and keeps a low profile. Page 16

Companies in this issue

Market Statistics http://www.FT.com

CROSSWORD, Page 26

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Data Modul	83.7	+	7.9
Hoechst	70.0	+	5.7
Preussag Stahl	840.0	+	40.0
Falls			
Apcoa Park	120.5	−	4.5
Kiekert	75.5	−	2.25
Strabag Pf	115.0	−	5.0
NEW YORK ($)			
Rises			
Glaxo Wlcm	62¼	+	8⅞
Harveys Casn	25¾	+	4⅛
Pacific Scie	29⅞	+	4⅛
Tom Hilfiger	50	+	5⅞
Falls			
Hollywd Pk	13⅞	−	2⅛
Natl Serv	23⅞	−	4⅛
LONDON (Pence)			
Rises			
Gibbs New	308½	+	52
Limelight	31	+	4½
Mcdicys	23½	+	9
Phytopharm	100½	+	20½
Falls			
Ashley (L)	31	−	3½
Fortnum & Mason	587½	−	75
TORONTO (C$)			
Rises			
AGF Mngt B	56.75	+	3.8
Fonorola	25	+	1.5
Sneed Intl	21	+	1.35
Tornmont Inds	33	+	1.5
Falls			
Metaloro	9.4	−	1.1
Spectrum Sig	8.15	−	0.85

PARIS (FFr)			
Rises			
BNP	899.0	+	74.0
Mille Amis	38.4	+	3.4
Seribo	183.0	+	12.8
Falls			
CEE	88.75	−	9.25
GPRI	57.1	−	3.0
Random	0.33	−	0.02
TOKYO (Yen)			
Rises			
Arai-Gumi	415	+	74
Komatsu Zen	332	+	80
Nippon Chic	186	+	30
Falls			
Fuji	186	−	66
Gifen Kogyo	150	−	40
Marusho	149	−	31
HONG KONG (HK$)			
Rises			
Citic Pacific	27.6	+	6.4
Hysan Dev	18.15	+	3.15
New World Dev	25.80	+	6.85
SHK Ppt	50.5	+	10.8
Shanghai Intl	28.50	+	8.15
Swire Pac A	48.3	+	8.1
BANGKOK (Baht)			
Rises			
Banpu	288	+	84
Delta Elec	600	+	184
Lanna Lignite	208	+	48
Falls			
S Grimer Eng	14	−	5
Inter Far East	12.75	−	4.00
Rojana	60	−	15

New York and Toronto prices at 12:30.

Glaxo and SmithKline shares up sharply

Planned merger lifts pharmaceuticals worldwide

By Daniel Green in London

Shares in Glaxo Wellcome and SmithKline Beecham soared yesterday, the stock market's first opportunity to trade in the UK's two largest pharmaceuticals *companies following* the merger plan they announced late on Friday.

Other pharmaceuticals shares also rose sharply.

Glaxo shares were up *340p*, or 20.7 per cent, to 1983p, and SmithKline rose 65p, or 8.3 per cent, to 845p.

At those levels the combined company would be worth almost £118bn ($197bn) the biggest in the world after General Electric of the US and ahead of Anglo-Dutch oil company Royal Dutch/Shell.

In London, Zeneca, long rumoured as a bid target, rose 10 per cent and Nycomed Amersham rose 4 per cent. In the biotechnology sector, British Biotech shares closed up 6 per cent.

In Germany, where drugs industry mergers have so far been rare, there were sharp price rises in Hoechst, Bayer, BASF and Schering.

In the US, Schering-Plough shares were up almost 7 per cent by lunchtime and Warner-Lambert shares up 4 per cent. The two are seen as the most likely to seek a merger.

Shares in American Home Products, with which SmithKline had been holding merger talks, fell $2½ to $92⅞.

Meanwhile, Karel van Miert, the European Union's competition commissioner, said yesterday he would study the deal, and the planned merger seems certain also to be scrutinised by the US Federal Trade Commission. The combined company would have about 11 per cent in the US prescription drugs business, almost double that of its nearest competitors there such as Johnson & Johnson and Merck.

Regulators on both sides of the *Atlantic have imposed* conditions on other large drugs industry mergers, including that in 1996 between Swiss companies Ciba and Sandoz to form Novartis, and Glaxo's takeover of Wellcome in 1995.

If they follow a similar pattern this time, they could insist that Glaxo and SmithKline make disposals before the deal goes ahead.

Most vulnerable are drugs for herpes, where the two have a dominant position with Glaxo's Zovirax and Valtrex, and SmithKline's Famvir.

Almost as likely to attract regulators' attention are drugs to treat side effect of cancer chemotherapy. Glaxo's Zofran and SmithKline's Kytril dominate the area.

Zeneca could be a possible buyer for one of these. It took the migraine drug Glaxo was forced to sell by regulators when it bought Wellcome.

Regulators may also target research programmes: Novartis had to divest some of its gene therapy work even though it was several years away from commercialisation.

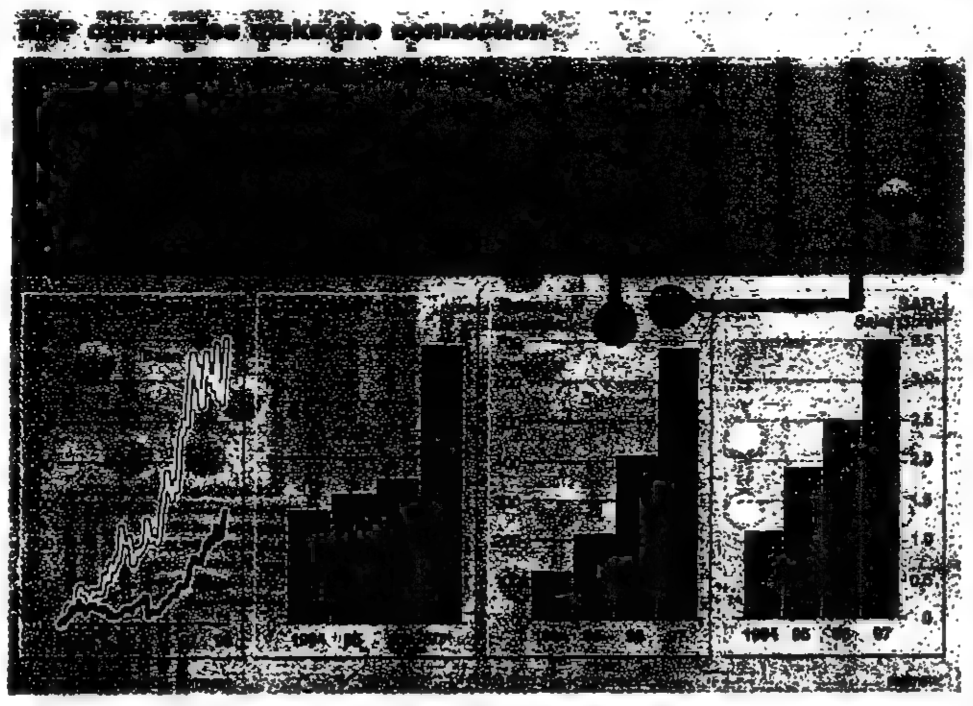
Fears that this might happen were behind a fall in Vanguard Medica shares. The UK biotechnology company is developing a migraine drug for SmithKline, but Glaxo is the world number one in migraine.

Lex, Page 14

Global circuit starts to hum

European companies lead surging sales of ERP

ERP companies make the connection



The strength of European companies in the rapidly growing market for the *specialist* "Enterprise Resource Planning" software has been highlighted by results from Baan of the Netherlands and SAP of Germany.

Baan yesterday unveiled a 65 per cent increase in revenues to $684m in 1997 and said its profits had more than doubled to $77.2m. A week ago, SAP, its bigger rival, reported a 62 per cent increase in sales to $3.36bn and a 63 per cent increase in profits to $512m.

SAP – with a share of more than 60 per cent – is far and away the dominant player in a specialised sector of a software market, where total sales were worth about $10bn *last year*. Baan is a much smaller player but last year's growth gives it a 13 per cent share of the market and ranks it number three in the world behind SAP, and Oracle of the US, but ahead of US rivals such as Peoplesoft and JD Edwards.

ERP software is used by companies to manage and plan business functions from order processing to manufacturing and from accounting to personnel. The market is growing at about 35 per cent a year, an increase which partly reflects the globalisation of international business and the premium this has placed on information technology systems which enable managers to control sprawling empires more effectively.

Among other factors driving demand higher are:

- Moves by companies to control escalating IT costs.
- The shift from proprietary mainframe systems toward industry standard hardware and client/server systems built around the Microsoft Windows NT operating system.
- Moving from bespoke software applications developed in-house towards the use of "off-the-shelf" packages.
- The "Millennium bug" – Year 2000 software problem – which has encouraged many companies to buy new software rather than adapt existing packages.

The German group's results highlight the success of the company which was founded 26 years ago and which has become the world's fourth largest software company.

SAP's flagship R/3 software is used by many of the world's largest manufacturing, petrochemicals and pharmaceuticals companies as well as a rising number of high technology companies including Microsoft, the world's largest software group. SAP is one of the few European companies in an industry dominated by US groups such as Microsoft, Oracle and Computer Associates. It plans to expand its workforce by almost 40 per cent, creating 5,000 jobs.

Most of SAP's clients have been large multinationals, while Baan has sold mainly to smaller and medium-sized companies. But it often takes 18 months to implement a full SAP system and may involve the overhaul of existing business systems. That has prompted *complaints* that management consultancies and computer services companies are the big winners from industry growth.

SAP and its partners *have* developed products to make implementation quicker and easier. Baan is attempting to sell to bigger companies.

SAP, which plans to add a listing on the New York Stock Exchange later this year, cautioned that its growth may be affected by the Asian crisis.

Even so, SAP said it expects to increase sales by 30 to 35 per cent this year, with pre-tax profits growing similarly and Baan believes it can continue to outpace the market.

Paul Taylor

Sumitomo Bank to launch $1bn securities issue

By Gillian Tett in Tokyo

Sumitomo Bank, one of Japan's largest, will launch a $1bn securities issue in the US within two weeks to boost its *capital base* and shield it from currency risk.

The issue will be made via a US subsidiary in the form of dollar-denominated perpetual *preferred shares* targeted at international investors.

The move appears to mark an innovative step in Japan. Although other banks and *insurance companies* have issued perpetual preferred securities before, none has done it in dollars in this way. Sumitomo said yesterday: "We *think this is the first of its* kind."

The step is likely to be closely watched in Japan, as most other big banks are also *under pressure to find ways to* boost their capital base. Industrial Bank of Japan yesterday said it was considering a similar step.

Sumitomo will first raise capital at a wholly-owned subsidiary, Sumitomo Bank Leasing and Finance, and set up another wholly-owned US unit known as Sumitomo Bank Treasury Company.

The two groups will set up a third entity, SBTC LLC, which will have capital of $500m and issue the dollar-based perpetual preferred shares as a group company of Sumitomo.

The group plans to back these securities with US treasuries, part of which will probably be purchased with the proceeds of the capital raising.

The complexity of the scheme *and its accounting treatment* aroused unease among some analysts. Sumitomo argued the complexity was partly *forced* on it by Japanese banking laws and insisted it solved several problems.

Since the preferred securities will not be converted into shares, the issuance will not dilute its return on equity at the bank, officials said. The capital raising will increase the group's tier one capital by an estimated 0.3 percentage points.

Sumitomo Bank, like other Japanese banks, is under mounting pressure to meet international capital adequacy *standards at the end of the* accounting year in March.

Its tier one capital is currently 4.63 per cent, only slightly above the 4 per cent *required for international* banks. However, the bank's planned write-offs of bad loans are expected to reduce this sharply before the fiscal year-end.

Sumitomo also argued that the scheme would shield it from currency risk. The bank has no capital in dollars, but *holds liabilities in the* currency – meaning its capital adequacy ratio is eroded if the dollar strengthens against the yen.

Sumitomo also said it planned to join other banks, such as Sanwa Bank, in a government-backed scheme to increase the capital base of Japanese banks by using public money to buy preference shares.

CU to buy German life assurer

By Christopher Brown-Humes in London and Andrew Fisher in Frankfurt

Commercial Union is taking its first big step into Europe's largest insurance market with a planned DM570m ($320m) acquisition of Berlinische Lebensversicherung, one of Germany's top 30 life assurers.

The UK composite says the move will provide a platform for further expansion at a time when the German market is expected to grow strongly because of deregulation and demographic change.

CU is in exclusive talks with Munich Re and Allianz, which have 64.6 per cent and 30 per cent of Berlinische respectively. It aims to buy the 5.4 per cent held by other investors. Funding for the deal would be with new CU shares.

Peter Foster, CU finance director, said the deal would be *initially dilutive but offered* tremendous long-term potential. "There are not too many opportunities to get into the German market in such a significant way," he added.

Germany is expected to shift *pension provision increasingly* from state to private sector. Life premiums as a percentage of gross domestic product are much lower than in the UK.

The acquisition would continue CU's expansion in Europe. It wins 21 per cent of new business from the UK, 32 per cent from France, 15 per cent from the Netherlands, 9 per cent from Italy and 10 per cent *from Poland*.

Berlinische Leben had a 1997 premium income of DM830m, giving it one per cent of the German life market.

Ergo profits, Page 18

NBA enters themed restaurant market via Hard Rock deal

By Scheherazade Daneshkhu in London

The National Basketball Association entered the themed restaurant market yesterday after signing a deal with Hard Rock Café, the hamburger chain owned by the Rank Group, the UK leisure company.

Rank said it would invest $90m to open 10 NBA-themed restaurants in the next three years. The investment forms part of a strategy to rejuvenate the 27-year-old Hard Rock brand, which includes setting up a record label and live music venues.

The agreement is believed to be the first *of significant size* between a national sports league and a themed restaurant operator. David Stern, NBA commissioner, said the entry into themed restaurants "will give our fans around the world another way to experience the NBA in their city".

The new restaurant chain – which has yet to be named and which will not sell hamburgers – *follows* a recent fall-out in the US themed restaurant market. Last month the shares of Planet Hollywood, the New York-based themed restaurant operator, which also owns the Official All-Star café chain, dropped sharply after profits warnings.

Sir Denys Henderson, Rank chairman, said: "The themed restaurant market has had *enormous* competition but the original is surviving. The professionals have come through and those that were Johnnie-come-late have frankly failed. NBA is a big exciting deal."

The first NBA café will open in early 1999 at Universal Studios, the theme park in Orlando, Florida, that Rank owns in a joint venture with Universal Studios, part of the Seagram group. Others are expected to open in Tokyo, Barcelona, Madrid and Los Angeles.

The restaurants will include an entertainment zone with basketball-themed games and contests. Sales of NBA merchandise are expected to account for between 35-50 per cent of revenues.

Rank also confirmed yesterday that John Garrett, managing director of its leisure arm, had resigned after differences over company strategy. Sir Denys said *rumours that there* had been boardroom rows were "absolute codswallop".

Mr Garrett is believed to have thought the development of his division, encompassing Odeon cinemas and casinos, was being held back by the need to meet rigid performance targets set by Andrew Teare, chief executive. He is replaced by Barry Pickersgill, managing *director* of Rank's Mecca bingo arm.

Mr Teare said Hard Rock, in line with all of Rank's divisions, showed an increase in operating profit in 1997.

Shares in Rank closed 12¼p higher at 312p.

Andrew Hunter, leisure analyst at ABN Amro Hoare Govett, said: "The share price has been depressed in part because *of the impact of* Planet Hollywood but it bounced yesterday partly on relief at Mr Teare's statement."

Lex, Page 14

Daewoo, GM to discuss fresh link-up

By John Burton in Seoul and Nikki Tait in Chicago

Daewoo and General Motors yesterday signed an agreement to discuss a strategic alliance that could provide the US carmaker with access to South Korea's protected market and relieve financial pressure on the debt-laden Korean car company.

The partnership would reunite the two carmakers, which terminated a Korean joint venture in 1992 after disputes over sales strategy, investment decisions and Daewoo's access to overseas markets.

The talks between GM and Daewoo would evaluate "common interests in a wide range of business opportunities both at home and abroad", although GM warned "the discussions would be exploratory in nature and did not presume a given outcome".

The Detroit group has already acknowledged talking to several Korean companies in the past two months. It said that yesterday's agreement meant Daewoo would now be the only Korean car manufacturer with which it would pursue partnership arrangements, although that would not rule out separate talks on the components front.

An alliance with Daewoo, Korea's fourth biggest conglomerate, would give GM a secure foothold in the tough Korean market, where foreign imports account for only 1 per cent of total car sales. Korea is the second largest car market in Asia after Japan. "Our focus has always been a 10 per cent market share in Asia," GM said yesterday.

Daewoo, Korea's second biggest carmaker, is expected to offer GM access to its domestic distribution network and car production plants. Yesterday it agreed to provide after-sales and maintenance service for all GM models in 10 cities. This follows the withdrawal from Korea of Inchcape, GM's previous service provider.

GM is also proposing to expand its car components business in Korea. In addition to its current car parts joint venture with Daewoo, it has recently discussed investments in components companies affiliated with Kia Motors, Korea's third largest carmaker.

Analysts believe that GM is also interested in buying or sharing Daewoo car plants in eastern Europe to expand its market share and capacity there. Daewoo and GM have already agreed to share production at the Ukrainian AvtoZAZ plant, which Daewoo acquired in September. The US company stressed yesterday that Asia was the primary consideration in the talks.

Recent global expansion by Daewoo Motors has left it with debts of Won4,500bn ($18bn), or nearly six times equity, at the end of 1996.

The need to service its debts has been Daewoo Motors' main reason for seeking a foreign partner. Korean media have reported that Daewoo is prepared to sell half of its car company to GM for Won500bn. GM said the talks could lead to an equity stake or some other form of capital investment.

The Detroit carmaker added that it expected to "move ahead aggressively" on the talks, although no fixed timetable had been set.

Cisco finds virtue in low-profile approach

Despite its dominant position, the US networking group has so far escaped regulatory attention

Cisco Systems bestrides its own sector nearly as confidently as Microsoft and Intel do theirs.

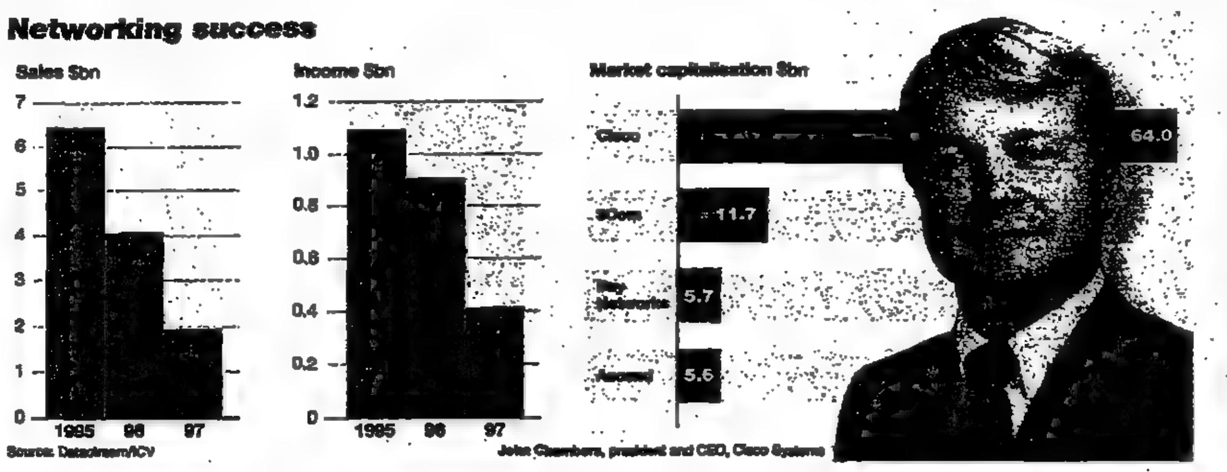
While Microsoft supplies the operating systems that control more than 90 per cent of personal computers, and Intel is the dominant manufacturer of the computer chips at their heart, Cisco makes most of the junction boxes of computer networks.

Cisco controls 85 per cent of the market for routers – the devices which control traffic on corporate networks and the public internet – of which the company has shipped more than a million. At $64bn, its market capitalisation is three times that of its four closest competitors combined.

The Microsoft-Intel duopoly in the PC market is expressed, in shorthand, as Wintel: Cisco executives, tacking on an extra syllable, now talk of Wintelco, a triumvirate.

"Cisco just gets stronger and stronger," says Paul Johnson of BancAmerica Robertson Stephens, the US investment bank. "This is a market with great economies of scale."

It is heady stuff for a company founded in 1984 by a husband and wife at Stanford University to send electronic mail to each other across networks which spoke different languages.



John Chambers, president and CEO, Cisco Systems

"Initially we were involved in plumbing and that wasn't very exciting," says John Chambers, the former International Business Machines and Wang executive who has been Cisco's chief executive since 1991. "Our success was based on our ability to sell to two to three technical people deep within the bowels of companies, and so there was no need to be visible."

Now Cisco is number one or two in all but three of the 15 types of networking equipment it produces. An investment in the company when it went public in 1990 has increased 70-fold, and sales reached $6.4bn in 1996-97.

There are factors unique in the company's growth. First, it is the prime beneficiary of the growth of networking. A multinational company links its employees' computers as a matter of course, so they can send e-mail, exchange files and access corporate databases. Now these networks are coming together, linked by the public internet, which is now accessed by about 50m people in the US alone.

Mr Chambers is not yet a computer industry icon as starry as Bill Gates or Andy Grove, the Intel chief. But his remorseless niceness, which colleagues insist is genuine, has given Cisco a culture of its own: focused on customers in a way that goes beyond the usual corporate rhetoric, and egalitarian to the point that executives share hotel rooms.

Moreover, Cisco's competitors, in merging to expand their portfolio of products to compete with the giant of their industry, have tripped up, almost without exception. Bay Networks only recently put behind it the traumatic 1994 merger from which it formed. 3Com and Ascend Communications are both wrestling with the acquisitions last year, respectively, of US Robotics and Cascade.

However, there is one factor in Cisco's success common to Microsoft and Intel: the ability to offer compatibility to customers. Cisco's inter-networking operating system, or IOS, has become the *lingua franca* of computer networks.

Two years ago, Mr Chambers remembers, he would have been happy if 10 per cent of customers opted for end-to-end Cisco products. Now, in the interests of simplicity, as many as 70 per cent of companies do so.

But so far Cisco has not attracted the attention of the regulators, as have Microsoft and Intel. That said, it is not without critics. "Arrogant is the word that is most often used about Cisco, arrogant and controlling," says David House, chief executive of rival Bay Networks.

One reason for the lack of regulatory involvement is that Cisco has fewer corporate enemies than Microsoft. The company prides itself on its ability to form partnerships with companies such as Alcatel, the French telecommunications equipment maker.

Second, it has more competition than might be apparent. Cisco faces new heavyweight competitors, such as Lucent Technologies, as the data networking and telecoms equipment industries converge.

Finally, Cisco can thank its low profile. Two years ago, the company was so little known that it received complaints intended for Sysco, the food distributor whose trucks sometimes disturb residential neighbourhoods. The company must hope regulators' attacks on monopolies in the computer industry also remain directed elsewhere.

Nicholas Denton

Moody's moves to negative view on US banks

By John Authers in New York

Moody's, the credit rating agency, yesterday announced that it had moved to a negative outlook on the long-term debt ratings of three international US banks – Bankers Trust, Citicorp and J. P. Morgan – as a result of the Asian financial crisis.

The move followed last week's announcement that Standard & Poor's, the other leading ratings agency, had put J. P. Morgan – the only US bank with S&P's highest AAA rating – on CreditWatch for a potential downgrade.

While S&P said its move was not directly related to the Asian crisis, Moody's said yesterday its review of J. P. Morgan would look at the bank's exposures to troubled markets in the region. Moody's removed J. P. Morgan from its top rating two years ago and now rates Morgan Guaranty Trust, its parent company, at Aa1.

However, the moves coincided with optimism on Wall Street that yesterday's movements in Asian markets showed that the crisis in the region was approaching resolution, and most of the affected companies registered strong gains in morning trading. Citicorp gained 4.25 per cent, up $5 1/16 at $124 1/16, while J. P. Morgan was up 3.58 per cent at $104 11/16.

In a further development, Citicorp announced that its total local assets in five troubled Asian countries came to $16.4bn. These exposures are far larger than its cross-border loans to the nations in the region, and did not have to be reported until next month.

The bank published details of its cross-border exposures to Korea, Indonesia, Thailand and the Philippines last month, but many in the market had wanted information on its local currency exposures.

Korea is by far the largest exposure, with total local country assets of $4.9bn, including $800m in consumer loans, and $1.0bn in commercial lending. Total assets in Malaysia are $3.7bn, including $1.3bn in consumer loans. Citicorp also has exposures of $3.1bn in Thailand, $2.6bn in the Philippines, and $2.1bn in Indonesia.

John Reed, Citicorp chief executive, stressed at his annual conference for analysts last month that the financial turmoil in the region could yet prove to be a net positive factor for the company's local operations. It could weaken local competitors, while creating a "flight to quality".

He said: "We've suffered pricing erosion in the emerging markets since 1996. Our best estimate is that that probably ended with the turmoil in the Asia-Pacific and pricing will be much firmer."

PolyGram, the Dutch entertainment group, has signed a multi-album recording contract with Elvis Costello, the singer and songwriter (above), which embraces classical and rock music, writes Alice Rawsthorn.

The deal follows the restructuring of PolyGram's record labels last autumn, whereby Danny Goldberg, chairman of Mercury Records, the rock label, assumed responsibility for the group's classical and jazz record labels.

It reflects the trend for multinational music groups to release classical and jazz albums recorded by rock and pop stars. EMI recently released a classical album by Sir Paul McCartney, and Sony Music unveiled one by Billy Joel.

Elvis Costello, who started his career in the late 1970s, has already worked with various jazz bands and on classical collaborations with the Brodsky Quartet and Swedish Radio Symphony Orchestra. The first album under the new contract will be a Mercury recording of music he has composed jointly with Burt Bacharach, the US songwriter.

Next week, PolyGram will report its financial results for 1997. Merrill Lynch expects it to announce a 7 per cent increase in net income from Fl 722m to Fl 771m ($374.3m) in 1996. PolyGram benefited from a strong performance from most of its record labels during the year, but analysts suspect that its film division remained in the red.

● Mammoth Records, the US record company recently acquired by Walt Disney, is understood to be in advanced talks to launch a joint venture record label with the Dust Brothers, the successful record producers.

Market turmoil hits Asian hedge funds

By William Lewis in New York

Asian hedge funds in 1997 suffered their worst year since 1988 because of turmoil in the regions' markets, according to an analysis prepared by a leading hedge fund consultancy.

Hedge funds that invest primarily in Asia achieved, on average, a negative return of 30.5 per cent, according to Van Hedge Fund Advisers International, the consultancy based in Nashville, Tennessee.

However Van Hedge's analysis identified a substantial difference between the performance achieved by Asian hedge funds based in the region and those located outside Asia.

Hedge funds that invest primarily in Asia and are located in Asia achieved an average negative return of 40.7 per cent in 1997. Hedge funds that invest primarily in Asia but are not located in Asia did better but still suffered an average negative return of 10.7 per cent last year.

The negative returns and redemptions by investors caused the assets invested by Asian hedge funds to fall from about $7bn at the beginning of 1997 to $4bn-$5bn by the end of the year.

John Van, vice-president of the consultancy, said the performance was worse than the previous annual low in 1990 when both types of funds together suffered an average negative return of 11.3 per cent.

"That Asian hedge funds suffered a poor year all round will come as no surprise." He said that one of the reasons Asia-based funds "experienced greater volatility in 1997 was because of a long bias to their portfolios compared with non-Asia based funds which tended to hedge more".

Van Hedge tracks the performance of 2,600 hedge funds worldwide, of which some 120 invest primarily in Asia.

Investment rules permit hedge funds to keep secret details of their assets and investment performance, forcing Van Hedge to gather its data from a variety of unofficial sources. It does not disclose details of the performance of individual funds.

Van Hedge found that the investment performance for both categories of Asian funds was particularly poor in the fourth quarter of 1997 when Asia-based funds fell on average 31.2 per cent and non-Asia based funds fell on average 13.6 per cent.

In the second quarter of the year both types of funds achieved positive investment returns, with non-Asia based funds making an average return of 11.2 per cent.

In any 12-month period over the past 10 years, Van Hedge estimated that investors investing in Asian hedge funds based in Asia have had a greater than one-third chance of achieving a loss.

AMERICAS NEWS DIGEST

Microsoft and Amdahl link

Microsoft has formed an alliance with Amdahl, the US computer company owned by Fujitsu of Japan, to collaborate on technology and services to link mainframe computers to networks running the Windows NT operating system.

The alliance is the latest move in Microsoft's efforts to reach beyond the desktop into the heart of corporate IT operations. It also represents an important link between two generations of technology: the mainframe computers upon which many large-scale business applications still run, and the latest personal computer networks.

"Customers are demanding a solution to the complex issue of integrating Windows NT [systems] with their mainframe data centre systems," said David Wright, Amdahl president and chief executive. Amdahl's DMR Consulting subsidiary would offer services to assist customers in this task, he said.

Such services would enable businesses to take full advantage of Microsoft's latest software while preserving their investments in mainframe systems, added Steve Ballmer, executive vice-president of sales at Microsoft.

DMR will also help customers to resolve "year 2000" computer problems by transferring mainframe applications to Windows NT servers. Amdahl would also work with Microsoft to bring the robustness and reliability of mainframe computer software to Windows NT applications, said Mr Wright. *Louise Kehoe, San Francisco*

■ BANKING

NatWest sells Canada arm

Hong Kong Bank of Canada, the nation's largest foreign-owned bank, has agreed to acquire the Canadian subsidiary of the UK's National Westminster Bank for an undisclosed amount. National Westminster's Canadian bank had total assets of C$844.5m (US$577m) and net assets of C$107m as of October 1997.

The acquisition, subject to regulatory approval, would help Hong Kong Bank of Canada expand its corporate lending activities and increase its customer base in central Canada, said Martin Glynn, the bank's chief operating officer. NatWest Group said it had concluded that the activities of its Canadian subsidiary, primarily general lending and commercial banking, did not fit into the strategic focus of NatWest Markets in North America.

"We believe this acquisition will enable us to serve a wider range of business customers in Canada," said Youssef Nasr, Hong Kong Bank of Canada's chief executive. Hong Kong Bank, owned by HSBC Holdings, has aggressively expanded into Canada over the past decade. *Scott Morrison, Toronto*

■ AGRICULTURAL MACHINERY

Shumejda to be Agco president

Agco, the Georgia-based agricultural machinery maker which takes in the Massey Ferguson and Hesston brands, announced yesterday that it was appointing John Shumejda, 58, to the new position of president and chief operating officer.

The company lost its chief executive last autumn, when Jean-Paul Richard quit after only nine months. That prompted Bob Ratcliff, the company's chairman, to resume the chief executive's responsibilities as well – a situation which will continue. However, Agco said yesterday that Mr Shumejda's appointment was part of the company's "succession planning", and it seems possible he will be groomed for the chief executive's position in due course.

Mr Shumejda was previously executive vice-president for manufacturing and technology. *Nikki Tait, Chicago*

■ DAIRY PRODUCTS

Suiza buys Land-O-Sun

Suiza Foods, the Dallas-based dairy products manufacturer, yesterday continued its aggressive acquisition programme, by announcing that it would buy Land-O-Sun Dairies for a total of $287m. The price includes $124m in cash, $100m in preferred shares and the assumption of some debt. Land-O-Sun, based in Tennessee, operates fluid dairy and ice-cream processing units across seven states. Sales last year were $464m.

The deal is the latest in a series of consolidation moves in the US dairy industry, which is facing considerable deregulation. Suiza has been among the most aggressive participants in this process. *Nikki Tait*

■ SOFTWARE

Internet Security to float

Internet Security Systems, an Atlanta-based network security company founded four years ago, has announced plans to float on Nasdaq. The group, whose software includes the SAFEsuite product range, is one of a new breed of network security specialists. The company has filed with the Securities and Exchange Commission for a proposed initial public offering of 2.5m shares, including 300,000 from existing shareholders.

Separately, the company has launched a new version of its RealSecure real-time intrusion detection and response system, which is designed to stop "hacker" attacks before systems are compromised. *Paul Taylor*

■ CONSTRUCTION

Santiago road bidders named

Five consortia have bid for a concession to upgrade and operate the Santiago-Valparamso-Viqa del Mar highway, the Colombian public works ministry said yesterday. The five teams are: Autopista de Peaje, Cicasa Chile, Ecorrutas, Ruta del Pacifico and Tribasa Cono Sur, a subsidiary of Mexico's Tribasa. Autopista de Peaje has links with the construction firm Belfi, Ecorrutas is related to construction group Ferrovmas, and Ruta del Pacifico is tied to the Spanish firm Sacyr.

The ministry will open the economic bids on February 19. Originally, the economic bids were to have been opened on January 19, but the date was delayed at the private sector's request, the ministry said. The upgrade has an budget of US$401m. *Reuters, Santiago*

BNP buys Peregrine equity unit

By John Ridding in Hong Kong

Banque Nationale de Paris yesterday moved to expand its Asian investment banking operations through the acquisition of the Greater China equity operations of Peregrine, the Hong Kong-based investment bank that collapsed last month.

Although the French bank declined to comment on the purchase price, the provisional liquidator said the deal included assets of about HK$290m (US$37.5m). It involves about 150 staff, including Francis Leung, a co-founder of Peregrine.

Negotiations were continuing between Peregrine executives and Banco Santander, of Spain, concerning other parts of the equities operations. "An offer should be put to the liquidator on Tuesday," said an executive involved in negotiations.

The complex negotiations have prompted divisions within Peregrine, as staff excluded from the BNP deal sought to secure a broader sale.

Banco Santander is interested in Peregrine's Singapore, London and New York operations, involving about 170 staff. At present, and excluding the BNP deal, there are about 500 staff in Peregrine's equity and corporate finance divisions.

Didier Balme, chief executive of BNP Hong Kong, said the deal marked the bank's strategy of expanding its investment banking presence in Hong Kong and China.

Under the terms of the agreement, a new company will be established in which BNP and BNP PrimEast, its regional investment banking arm, will hold a combined stake of 90 per cent. The balance will be held by Mr Leung and other managers of the Greater China division.

Mr Leung, who will be one of two executive vice-chairmen in BNP Prime Peregrine, as the new company will be called, will be in charge of day-to-day operations. Mr Balme said the former Peregrine executive would be granted a high degree of autonomy.

The other vice-chairman will be Hsieh Fu Hua, managing director of BNP PrimEast, set up last year with a core of Singaporean senior staff. "The new company will be a combination of Asian professionals with the backing of a western bank," said Mr Hsieh.

Peregrine had been one of the leading underwriters and sponsors of equity issues in Hong Kong by mainland companies, although the flow of new listings has been halted by the regional financial crisis.

A Peregrine executive said BNP had exclusive rights to the Peregrine name for Greater China and non-exclusive rights elsewhere. He said Banco Santander might be interested in securing exclusive rights to the name outside Greater China.

Asian crisis takes toll on VW

By Graham Bowley in Frankfurt

Volkswagen of Germany, Europe's biggest carmaker, yesterday reported it was feeling the impact of Asia's economic crisis after an 8.5 per cent drop in vehicle sales in some markets in the region last year.

The decline will add to worries about the likely effect of the Asian crisis on western companies.

The German carmaker, which has been among the most aggressive in breaking into Asia, maintained its strong momentum in China and Japan, its two biggest markets in the region.

But sales elsewhere in Asia-Pacific dropped from 36,381 in 1996 to 33,281 last year, with Thailand and South Korea recording the sharpest declines. Before the economic crisis last year, these markets had been among the fastest-growing in the world. In 1996, VW recorded a growth rate in this region of 16.9 per cent.

The sharp slowdown suggests the crisis has had a big impact on demand, which is worrying western exporters.

Siemens, the large German electronics and electrical engineering company, reported last week that orders had stagnated in Asia at the turn of the year.

The German chemicals industry last week warned it was concerned about the possible contraction in Asian economies. However, it also feared that the sharp devaluation of some Asian currencies meant cheap imports from Asia could pose a direct threat to business in western markets.

VW said: "In the medium term VW is expecting a recovery in Asian markets and is therefore striving to build further its presence in the region."

In the whole of the Asia-Pacific region, VW sold 371,529 vehicles last year, 11.5 per cent more than in 1996. This was a slightly smaller increase than the previous year, when sales rose 13.3 per cent.

Sales in China, where VW has large manufacturing plants and employs about 14,000 people directly, increased 17.2 per cent to 279,423 vehicles. VW was one of the first western manufacturers to break into China when it formed a joint venture in 1984 in Shanghai.

Sales in Japan grew 0.8 per cent to 58,825 units.

VW makes vehicles in Taiwan, where it employs about 700, as well as in China. The company also uses independent assembly sites in Indonesia, Malaysia and the Philippines.

ASIA-PACIFIC NEWS DIGEST

Siam Cement to lift exports

Siam Cement, Thailand's biggest conglomerate, said its campaign to export away its heavy foreign borrowings would lift export earnings from $1.1bn in 1997 to $1.5bn this year. The building materials-to-petrochemicals group also said Japanese lenders had agreed to switch $1.2bn in dollar-denominated loans into yen debt.

Siam Cement was the first big Thai group to admit that last July's flotation of the baht, and the currency's subsequent sharp fall, would hit profits by increasing the costs of its unhedged foreign debts. Every time the cost of buying a dollar rose by one baht, the group's costs rose by Bt2.5bn ($47m), the company said yesterday. Last year's foreign exchange loss will probably be about $1bn.

The group owes $4bn, which will cost $350m to service this year. About $700m of the total is short-term debt. Export revenues will rise to 40 per cent of total income, compared with 20 per cent last year, according to Aviruth Wongbudhapitak, vice-president. Converting some of its borrowings to yen will spread the exchange risk and reduce the interest charges on the switched loans by as much as 100 basis points. Mr Aviruth said Japanese institutions were willing to do this because they had plenty of yen to lend and also needed dollars.

Siam Cement has trimmed its expansion plans by Bt17.55bn since the start of last year in order to preserve cash flow. The main victim has been a Bt15bn pulp plant in Indonesia, but other projects worth a total of more than Bt26bn have been delayed. Mr Aviruth said that with the value of the baht halving since last year, the group had become obsessed with paring back its debts. "Nothing else matters any more," he said. He could not predict when the group would start reporting net profits again.

William Barnes, Bangkok

■ FOOD MARKET

Japan Tobacco expands

Japan Tobacco is to acquire Pillsbury's Japanese subsidiary and take over the handling of most Pillsbury food products in Japan from the end of this month, the company said yesterday. Pillsbury, a division of Diageo, the company created by the merger of Guinness and Grand Metropolitan last year, produces processed food such as the Green Giant brand of vegetables.

Japan Tobacco has been diversifying since it lost its monopoly on the Japanese tobacco market after privatisation in 1985, and already has several processed food divisions.

Bethan Hutton, Tokyo

■ SOUTH KOREA

Posco considers sell-offs

Pohang Iron & Steel (Posco), South Korea's biggest steelmaker, is considering selling its stake in Shinsegi Telecom, a cellular phone company, as part of a restructuring programme. Posco said it would merge three subsidiaries and sell Posco Refractories, which produces steel furnaces, reducing the number of units to 13. It also might dispose of its shareholding in the Seoul Shinmun, a government-run newspaper.

The restructuring was made in response to criticism by the new government of Kim Dae-jung that Posco had engaged in excess diversification.

Posco became the biggest shareholder with a 16 per cent stake in Shinsegi Telecom in 1995 when it received a licence to become the only competitor to SK Telecom, the monopoly cellular phone provider.

John Burton, Seoul

■ CAMERAS

Nikon cuts forecast

Nikon, the Japanese camera maker, has cut its full-year pre-tax forecast from its previous estimate of Y23bn to Y16bn ($126m). Revenue was seen at Y380bn, compared with the earlier Y400bn forecast, and net profits were expected to be Y7bn, against the Y12bn forecast earlier, it said. It blamed the revision on declines in Asian currencies and the stagnant microchip market.

At the parent level, Nikon said it cut the year to March pre-tax profit from Y12.5bn to Y9bn on revenue of Y300bn, against Y315bn forecast earlier, with the net profit forecast now seen at Y4bn, down from Y5.5bn.

AFX-Asia, Tokyo

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New family for father red-chip

BNP hired Francis Leung as part of its latest investment

As the "father of red chips" and managing director of Peregrine, Hong Kong's failed investment banking champion, Francis Leung soared the heights and plumbed the depths of Asian finance.

Now as executive vice-chairman of BNP Prime Peregrine, a new regional investment bank controlled by France's Banque Nationale de Paris, Mr Leung will be hoping to rebound and capitalise on his contacts as one of Hong Kong's best-connected corporate financiers.

The omens might appear promising. As the formation of the new company was announced yesterday, the red-chip index, which measures the performance of mainland-controlled Hong Kong listings, soared by more than 20 per cent.

But Mr Leung may hope for a touch more stability after the rollercoaster ride of the past 12 months. For much of 1997, Mr Leung helped many of China's Hong Kong-listings to market. Peregrine, and Mr Leung in particular, became associated with several heavily subscribed issues as investors paid exorbitant prices for access to Chinese businesses.

"They were the dominant player in what was a spectacular franchise," says one executive at a rival investment bank.

Just months later, a tearful Mr Leung found himself next to Philip Tose as his partner and co-founder of the investment bank explained to the press how Peregrine had been forced into liquidation.

The main problem, claimed Mr Tose, had been the rapid devaluation of the Indonesian rupiah and its impact on the group's fixed income division. Substantial loan exposure at the division to Indonesian companies scuppered a rescue deal with Zurich Group of Switzerland, condemning Peregrine to collapse.

Peregrine, with Mr Tose and Mr Leung at the helm, had grown rapidly since its birth 10 years ago to become Hong Kong's biggest investment bank and one of the largest independent financial institutions in the region. Prior to Peregrine, Mr Leung had worked alongside Mr Tose at Vickers da Costa and at Citicorp International after the US bank acquired Vickers.

If the downfall of Peregrine was due to problems of exposure and risk management at the company's fixed income division, the rise owed much to Mr Leung's role in the equity division.

Few mainland issues came to the Hong Kong market without a role for Peregrine, often as lead manager.

In the first half of last year, the bank sponsored the listing of Guangzhou Transport, First Tractor, and the investment arms of the Beijing and Shenzhen municipal governments. Those deals alone raised more than US$600m for mainland companies.

BNP will be expecting Mr Leung to bring more deals to market.

"We will give him a great deal of autonomy," says Didier Balme, chief executive of BNP Hong Kong. The former Peregrine executive will be supported by his former team, the majority of which is making the move to the new venture.

But in spite of yesterday's surge, the going is likely to be harder than ever.

The bull market for China shares – as for all other Asian shares – has long since been seized by the bears. The flood of new issues has fallen to a trickle, with just a few listings since the crisis first hit Hong Kong last October.

Mr Leung is confident that Hong Kong will retain its role as the mainland's source for international funds. "There is a huge demand for funds, and they will be pragmatic about pricing," he said in an interview ahead of Peregrine's collapse.

The former Peregrine executive is also determined that he remains at the forefront of the sector. "Peregrine was the acknowledged leader in raising capital for mainland companies. We intend to retain that position."

John Ridding

Well connected: Francis Leung was involved in many of China's HK listings last year

First Pacific calls off San Miguel buy

By Justin Marozzi in Manila

The possibility of an early takeover of San Miguel, the Philippine food and beverage group, faded yesterday as First Pacific, the Hong Kong-based conglomerate that has been targeting a substantial stake, said talks had been called off.

First Pacific's statement followed a 28 per cent leap in its share price from HK$3.10 to HK$3.90 and confirmed a Philippine newspaper report quoting Eduardo Cojuangco, the man at the centre of takeover discussions, saying that the deal was off.

Mr Cojuangco has been in discussions with the Philippine government and First Pacific over the sale of a stake in San Miguel sequestered by the Cory Aquino administration in 1986.

The government alleges that the stake, of about 48 per cent, was fraudulently acquired by Mr Cojuangco, a business associate of the late dictator Ferdinand Marcos.

The key to a takeover depends on Mr Cojuangco relinquishing his claim to the stake and reaching an out-of-court settlement.

First Pacific said talks had not been progressing for several weeks. "We always said we would be prepared to go ahead if the transaction met all our financial and administrative control objectives. It became clear that this would not be the case."

The group would maintain its 2 per cent stake in San Miguel and continue to try to identify undervalued assets in the region.

The potential takeover of the flagship Philippine company by a foreign group is a sensitive issue before national elections in May.

Speculation in Manila has intensified recently that Mr Cojuangco would prefer to wait until the elections before striking any deal. Over the weekend, he was quoted as saying he would be backing Joseph Estrada, the populist vice-president and a former political ally. If elected, Mr Estrada, who has consistently led the polls, is expected to look more kindly on Mr Cojuangco's share ownership tussle.

The collapse of the deal is a blow to the Manila government, which is facing its first budget deficit in five years.

Shares in San Miguel closed 6 pesos higher yesterday at 58.5 pesos.

Indonesian company to refocus

By Sander Thoenes in Jakarta

Shares in Hanjaya Mandala Sampoerna rose 21 per cent to Rp5,675 yesterday after the Indonesian cigarette company said it had reduced its foreign loan exposure and would shut some foreign and local subsidiaries to focus on core business.

Sampoerna said it had hedged its remaining foreign debt at Rp8,000 to the dollar. Many companies have not hedged at all, or only at Rp3,000. The rupiah ended at Rp10,300 from Rp11,500 last week, compared with a low of Rp16,000 earlier in the month that led to fears of massive defaults.

Sampoerna will cut costs by halting some of its foreign and domestic operations, including retail shops and property.

Sales rose 13 per cent to Rp2,410bn ($230m). Its new A brand has seen a sharp rise but sales of its traditional clove cigarette, Dji Sam Soe, have been disappointing.

David Chang, head of research at Trimegah Securities, said Sampoerna and many other Indonesian companies were eager to restructure but had few options.

The central bank has lifted interest rates, foreign loans have become prohibitively expensive, and the rupiah depreciation and general economic glut have wiped out the value of many assets.

Oilfield delays depress price of Woodside shares

By Gwen Robinson in Canberra

Woodside Petroleum, one of Australia's largest oil and gas producers, shook markets yesterday with an announcement that its development of oilfields in the Timor Sea would be delayed at least six months and incur significant cost overruns of about A$200m-A$250m (US$137m-US$171m).

Woodside's share price plunged 4.7 per cent to A$9.57 on the news, continuing a steady slide triggered by Asian economic turmoil.

From a high of $13.40 less than six months ago, Woodside's share price has fallen victim to growing concerns about low oil prices and waning demand. Other energy stocks have also seen an exodus of investors. Woodside, however, has aroused particular concern because of its leading role as Australia's only existing liquefied natural gas producer in the country's massive North-West Shelf LNG consortium.

Analysts expressed surprise at yesterday's news, which was included in the company's quarterly production report. Some analysts said they had received assurances from Woodside just a month ago that the project was within budget. Yesterday, however, the company said expected cost overruns at its Laminaria and Corallina oilfields in the Timor Sea could add A$250m to the original A$1.07bn.

Woodside said it would give a definitive figure on the expected cost blow-outs when it announced its 1997 earnings results at the end of this month. In its quarterly production report, the company also warned that construction problems were likely to delay commissioning of the fields by six months, to September 1999.

The delays and increased costs were blamed on shortage of materials to build a floating production, storage and offloading facility, amid strong demand for such platforms worldwide.

Woodside acknowledged that the delay would affect its earnings in 1999, as revenues from the project would be deferred by up to six months. Analysts estimated that Woodside, which owns 50 per cent of the project, would have earned revenues of about A$295m in that six months, based on current oil prices and exchange rates.

The other half of the project is 25 per cent owned by BHP and 25 per cent by the Royal/Dutch Shell group.

Another concern for Woodside is the bleak outlook for economic growth in Japan, the company's largest customer and an important contributor to the North-West Shelf project. If Japanese demand slows, LNG prices are likely to suffer, said Tim Gerrard, resources analyst at Prudential-Bache Securities.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Prices for Trading on [illegible] / Final Prices for Trading on [illegible]

Half hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	36.00	53.68	[illegible]	0.71
0100	33.30	53.68	54.18	0.71
0130	33.30	27.94	28.44	0.71
0200	33.30	27.94	28.44	0.71
0230	33.30	27.94	28.44	0.71
0300	45.00	36.36	36.86	0.71
0330	45.00	36.36	36.86	0.71
0400	33.30	27.94	28.44	0.71
0430	33.30	27.94	28.44	0.71
0500	33.30	27.94	28.44	0.71
0530	18.75	25.99	26.49	0.71
0600	18.75	29.55	30.05	0.71
0630	18.75	29.56	30.05	0.71
0700	16.90	[illegible]	36.27	0.71
0730	32.48	36.23	36.74	0.71
0800	[illegible]	36.53	37.04	0.71
0830	45.69	47.95	48.47	0.71
0900	45.71	49.03	49.57	0.71
0930	47.90	36.76	37.34	0.71
1000	47.82	39.54	40.15	0.71
1030	47.91	39.58	40.21	0.71
1100	[illegible]	39.64	40.28	0.71
1130	45.73	55.47	56.14	0.71
1200	47.90	55.60	56.32	0.71
1230	47.88	55.56	56.26	0.71
1300	47.94	55.44	56.11	0.71
1330	37.13	39.59	40.23	0.71
1400	37.72	39.64	40.29	0.71
1430	[illegible]	39.71	40.37	0.71
1500	37.13	39.73	40.39	0.71
1530	37.14	44.89	45.61	0.71
1600	41.78	45.86	46.85	0.71
1630	44.92	67.71	71.54	0.71
1700	49.71	101.48	109.86	0.71
1730	104.16	130.72	139.45	0.71
1800	107.41	122.03	128.25	0.71
1830	101.98	71.22	74.39	0.71
1900	63.67	50.89	52.18	0.71
1930	50.05	39.80	40.55	0.71
2000	48.17	36.42	36.89	0.71
2030	[illegible]	36.53	37.04	0.71
2100	41.72	36.23	36.74	0.71
2130	38.67	35.77	36.27	0.71
2200	36.67	32.91	33.41	0.71
2230	38.66	30.84	31.34	0.71
2300	36.68	27.92	28.42	0.71
2330	[illegible]	25.99	26.49	0.71
2400	[illegible]	25.99	26.49	0.71

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.80/MWh becomes 1.880p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of later revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. The Transmission Services Use of System Price (TSP) is charged by the National Grid Company plc (NGC) for the operation and development of its electricity transmission system for the purposes of apportioning the costs arising from the operation of that system. Charges are calculated by NGC and are based on payments made by NGC into the pool. TSP is also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool and on TSP on behalf of NGC by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone [illegible] between 8.30am and 5.15pm Monday to Friday.
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Commerzbank reveals Asian risk

By Andrew Fisher in Frankfurt

Commerzbank yesterday became the latest European bank to disclose the extent of its potential problems in Asia's turbulent financial markets by announcing nearly DM1bn ($547m) of provisions to cover "latent Asian risks".

But shareholders of the German bank will be paid an increased dividend from profits higher than those of 1996. Operating profits after provisions rose 24 per cent to DM2.3bn, with net income up 12.5 per cent to DM1.35bn.

Commerzbank, the subject of persistent takeover speculation, is lifting total loan loss provisions from DM1.68bn to DM2bn to take account of risks in Asia, the wave of German bankruptcies and its cautious approach to loan valuations.

This contrasts strongly with the statement in November's nine-months report that 1997 provisions would fall to about DM1.3bn.

Last week, Deutsche Bank announced a surprise DM1.4bn of special provisions to cover risks in the problem countries of the Asian region – South Korea, Thailand, Malaysia and Indonesia – where its exposure is about DM9bn.

Commerzbank said its operating profits before provisions were 26 per cent higher at DM3.9bn.

Martin Kohlhaussen, chairman, said the bank had benefited from lively loan demand and securities business up to the autumn when the Asian crisis broke. Total assets rose 16 per cent to DM519bn.

But while net interest and net commission income were higher, own-account earnings from financial trading were weak.

The bank gave no details, but did not deny leaked figures of an 82 per cent drop in trading profits from DM450m to DM79m. It is understood this reflected a misreading of the bond market in the fourth quarter.

Manfred Piontke, banking analyst at Bank Julius Bär, said Commerzbank's Asian provisions were "substantial" but said it clearly wanted to show it was acting from strength by raising the dividend.

It is also putting DM650m into revenue reserves, the same as the previous year.

Shareholders will receive a dividend of DM1.50 a share against DM1.35. Employees will receive a bonus of up to 10 shares.

Mr Piontke said it was not yet clear how much of Commerzbank's profits reflected one-off factors such as the special distribution it received on its indirect stake in Heidelberger Druckmaschinen, which makes printing machines, when it floated 15 per cent of its shares on the stock market.

Dasa flies back into profitability

Daimler-Benz is proud of the sharp turnround at its aerospace division

Hell hath no fury like an executive scorned. But Edzard Reuter has chosen the wrong time to hit back at Daimler-Benz, the German industrial group which unceremoniously ousted him as chairman two years ago.

In tell-all memoirs to be published next week, the embittered industrialist lashes out at the company's present management, saying they were unfair to blame him for the group's huge losses in the early 1990s when he was still chief executive.

However, Daimler's board members are unlikely to be too troubled by the attack. Daimler-Benz Aerospace, once the chief source of the group's woes, has been resurrected as one of corporate Germany's biggest success stories. Last month, Manfred Bischoff, Dasa chief executive, proudly marked the aerospace division's turnround when he announced buoyant revenues for 1997 and a full order book. After years of cuts, it is taking on new staff and is expected to show operating profits of more than DM400m ($219m) when it publishes full figures in the spring.

"Dasa is back in good shape again," says Rolla Kautz, analyst at BHF Bank in Frankfurt.

Big and brave changes lie behind Dasa's revived fortunes. With wages about double those in the UK, Dasa had to boost productivity. As part of a programme which shaved around DM2.5bn off the group's costs, jobs were cut, more efficient working practices introduced and manufacturing plants were closed as Dasa sought to become competitive on world markets. The workforce shrank from 75,800 to 43,500.

As part of the refocus Dasa also jettisoned Fokker, the Dutch aircraft manufacturer which had become its biggest liability.

Dasa bought Fokker in 1993, when Mr Reuter was still chief executive. But the failings of the Dutch subsidiary soon taught Dasa it was a mistake to try to have its fingers in every pie. As part of the reversal in policy, Dasa also sold Dornier, its loss-making regional aircraft division, and sought partners for divisions in businesses where it could not compete. Since that painful period, Mr Bischoff, a former economics professor, has emphasised that Dasa is now concentrating only on "core businesses".

"Fokker was a major wake-up call for Dasa," says Chris Avery, aerospace analyst at Paribas in London.

But disposals have not been the only reason behind Dasa's turnround. The latest results showed the company has benefited from the strongerUS dollar and a recovery in demand for civil aircraft.

Manfred Bischoff (left) reversed the strategy pursued under Edzard Reuter Reuters

Two years ago much of Dasa's plight was blamed on the then exceptional weakness of the dollar. Mr Bischoff set out to pare back costs so that the company would be competitive even at the relatively unfriendly exchange rate of DM1.35. He has achieved that aim but the dollar has also since strengthened, giving Dasa a crucial double boost.

But Dasa's health has also been buttressed by important political developments. The decision late last year by the governments of Germany, the UK, Italy and Spain to go ahead with production of Eurofighter, the European fighter aircraft, has given a useful political shove in the direction of consolidation for Europe's fragmented defence industry. As a company with a large stake in Eurofighter, Dasa will benefit.

"Our competitors in the US and Russia with their agents in Germany and Europe have done everything to discredit Eurofighter. They see Eurofighter as a very dangerous competitor," Mr Bischoff says.

The company is also benefiting from consolidation in Europe's civil aircraft industry. The German group is one of the four co-owners – along with Aerospatiale of France, British Aerospace and Casa of Spain – of Airbus Industrie, the civil aircraft manufacturer.

Even though French political squabbles have slowed the process, the four partners should meet their target of turning Airbus into an independent limited company by next year. Airbus has already made significant progress against market leader Boeing, the US manufacturer, but further consolidation will bring efficiencies necessary to take on its larger rival more effectively.

"We are now launching a broadside attack on Boeing's aged monopoly," says Mr Bischoff. But despite the fighting words, there are clouds on Dasa's horizon.

Mr Bischoff warns this year would not provide the same "fireworks" as in 1997, with growth predicted to slow. Bitter competition between Airbus and Boeing was driving down aircraft prices and there might be troubles linked to the Asian crisis, he says.

Edzard Reuter is reported to have described his successors as "second-rate schoolchildren". Dasa's recent success suggests that, if that is what they were they have since learnt some important lessons. But if a downturn in the highly cyclical aircraft market is just around the corner, Mr Reuter's former colleagues may have tougher exams ahead.

Graham Bowley

RMBH eyes life assurance purchase

By Victor Mallet and Mark Ashurst in Johannesburg

RMB Holdings, the South African financial services group, and its subsidiary Momentum Life Assurers are believed to be negotiating to buy The Southern Life Association from the Anglo American group.

The move would lead to further consolidation among the country's life assurance businesses.

Such a deal would also simplify Anglo American's complicated stakes in the South African financial sector. Five companies – RMBH, Momentum Life, Anglo American, Southern Life and First National Bank Holdings – have announced they are in preliminary talks about "a potential merger of various financial services interests of the Anglo American and RMBH groups".

Analysts believe a life assurance merger is the most likely first stage of any deal. Anglo American and First National together hold 60 per cent of Southern Life.

However, the negotiations could also affect the future of First National. The talks follow almost two years of market speculation about the future of the bank, one of the least competitive in South Africa's retail banking sector. Revised capital structures for the companies concerned in the RMBH discussions – which would probably include unbundling the cross-shareholdings between First National and Southern Life – could revive the idea of selling the bank to a foreign shareholder.

More than 70 foreign banks have opened representative offices in Johannesburg since South Africa became a democracy in 1994, but none has yet ventured into the retail market. This sector has traditionally been more profitable for the country's "big four" commercial banks than for the corporate market, although retail margins are shrinking as electronic banking and other technical advances transform the industry.

A simplification of financial holdings, and even a disposal of the bank, would also be in line with Anglo American's new strategy of simplifying its labyrinthine capital structure. It has already decided to move its gold mining interests into a single company, Anglogold, which is due to be listed in Johannesburg in June.

RMBH and Momentum Life, meanwhile, are thought to be attracted by the cost savings they could achieve if they took over Southern Life, which has been performing relatively poorly and has not benefited greatly from the association with First National and its numerous potential retail outlets for insurance products.

Eramet shares jump 2.1% on nickel deal

By David Owen in Paris

Shares in Eramet rose strongly yesterday in the wake of a deal on nickel mining rights which could see hundreds of millions of francs in compensation paid to the state-controlled French mining group by the end of this summer.

The shares closed up FFr5.10, or 2.1 per cent, at FFr250.10 on heavy volume. This compared with a rise of just 0.48 per cent for the benchmark CAC 40 index.

Eramet has agreed to exchange its Koniambo nickel concession on the Pacific island of New Caledonia for the smaller Poum deposit held by Société Minière du Sud Pacifique (SMSP).

In return, the French group is to receive yet-to-be-determined compensation. Yves Rambaud, Eramet chairman, has indicated that the amount could be of the order of FFr1bn ($163.3m).

Sophie L'Hélias, a former adviser to some Eramet minority shareholders, said it appeared that the agreement "takes into account shareholders' concerns expressed very vividly at the last annual meeting. Who knows, maybe this cash – if it is ever given – will be redistributed to shareholders," she said.

France's previous centre-right government planned to strip Eramet of the Koniambo concession, but these plans were resisted by Mr Rambaud. The episode led last year to the approval at the company's Paris annual meeting of measures reinforcing its independence from its state-owned majority shareholder.

The agreement, which comes with nickel prices at a low ebb, has broader political implications since it should pave the way for discussions on the future of the French overseas territory.

Under agreements signed in 1988, a referendum on independence is due to be held in New Caledonia this year unless a deal between the French government and local political parties can be reached. The local Kanak independence movement, which is close to SMSP, has made reaching a deal on Koniambo a prerequisite to beginning political talks.

EUROPEAN NEWS DIGEST

Lacklustre debut for Gold Fields

Gold Fields, the new South African company bringing together the gold mining interests of Gencor and Gold Fields of South Africa, made a lacklustre debut on the Johannesburg Stock Exchange yesterday, with only 10,000 shares traded. They closed at R33, giving the company a market capitalisation of R7.94bn ($1.6bn).

The merger was arranged before the latest fall in the gold price, and the partners had originally hoped for the shares to be launched at about R50 to create a R12bn company. However, yesterday's discount to net asset value of 24 per cent was in line with analysts' expectations.

South African conglomerates are seeking to simplify their corporate structures to improve investment ratings and compete more effectively in international markets. Anglo American, the world's biggest gold producer, also plans to consolidate its gold interests into a single company, Anglogold, by July. *Victor Mallet, Johannesburg*

■ INSURANCE

Ergo eyes European expansion

Ergo, the insurance company created from the merger of Munich Reinsurance's direct insurance holdings, expects a further rise in profits this year and is looking at possible expansion in Europe, Edgar Jannott, chairman, said. Ergo was particularly interested in prospects in eastern Europe. Mr Jannott said that in Germany, where Ergo is the biggest direct insurer after Allianz, it aimed to grow from its own resources by attracting more customers. But as only the seventh biggest insurer in Europe, there was clearly more scope for expansion outside Germany.

Ergo gave no net profit figures for last year, but Mr Jannott confirmed analysts' estimates that they would be around DM500m. This compares with 1996 profits of DM433m in the pro forma merger statement. Ergo was created through the amalgamation of Victoria insurance, the Hamburg-Mannheimer group, DAS (legal insurance) and DKV (health insurance). It aims to achieve cost savings of about DM150m annually from the merger after two years.

Yesterday was the first day of trading in the new Ergo shares, which began at DM220 and closed at DM238.90. Munich Re owns 54 per cent of the company and Allianz 10 per cent. *Andrew Fisher, Frankfurt*

■ ISRAEL

Hapoalim sell-off approved

Israel's parliamentary finance committee yesterday approved the sale of a 4 per cent stake in Bank Hapoalim, the country's biggest, to the bank's 9,700 employees this month. Workers will be offered the shares at a 25 per cent discount. An additional 2-4 per cent of the bank's equity will be sold in a domestic public offering in February, lowering the state's stake to about 25 per cent.

Meir Jacobson, director of M. I. Holdings, the state company charged with privatising banks, said up to 45 per cent of United Mizrahi Bank, the fourth largest with net profits of Shk181m ($50.3m) for the first three quarters of 1997, was next in line. The issue is scheduled for May and will target European investors. The government is also seeking a buyer for a controlling stake in Bank Leumi, the country's second largest. In 1997, the government raised about Shk7bn from selling bank stakes. This included an offering of 15 per cent of Leumi which targeted European investors and the sale of a 43 per cent controlling stake in Hapoalim to an investor consortium headed by US-Israeli billionaire Ted Arison. *Avi Machlis, Jerusalem*

■ CELLULAR PHONES

Portuguese rivals see strong rises

Portugal's rival cellular phone operators yesterday reported strong increases in net profit for 1997. Telecel, controlled by AirTouch, a US telecommunications group, lifted earnings 82.2 per cent from Es7.3bn in 1996 to Es13.3bn ($71.2m). This compared with a 58 per cent increase to Es11.2bn for Telecomunicações Móveis Nacionais, part of the Portugal Telecom group. But TMN claimed a slightly bigger market share, with 761,706 subscribers, compared with Telecel's 745,252.

Strong performance by cheaper, pre-paid packages targeted at the consumer market helped lift Telecel's profits to the top end of analysts' forecasts. Earnings per share were up from Es339 to Es618. TMN is not listed on the stock market. Telecel increased its total number of clients in 1997 by 124.9 per cent. TMN's growth rate was 129 per cent. But average monthly income per client fell 29.2 per cent to Es12,194 for Telecel, as a result of lower tariffs and an increase in non-business subscribers to about half the total. TMN's average monthly revenue per client fell 16 per cent to Es10,400.

António Carrapatoso, Telecel chairman, yesterday forecast the company would have close to 1m clients by the end of the year, with average monthly revenue falling to about Es10,000. A third operator, an alliance of private-sector and state-controlled companies that includes France Telecom, is due to start up this year. *Peter Wise, Lisbon*

■ TELECOMMUNICATIONS

Czech group back in the black

SPT Telecom, the Czech fixed-line monopoly, yesterday announced a return to profit last year after a Kc8.7bn ($246m) one-off restructuring charge in 1996 pushed it Kc483m into the red. SPT, which is 51 per cent state-owned but the most actively traded company on the Prague Stock Exchange, benefited from fast growing revenues as it continued its huge investment programme into new lines.

The company reported Kc6bn unaudited net income on revenue up 23 per cent to Kc39.9bn. Costs rose 18.5 per cent to Kc21.7bn, while staffing was cut by 3,350 under the continuing restructuring programme, to 22,938. Telsource, the consortium shared by KPN, the Dutch Telecom company, and Swiss PTT, won a 27 per cent stake in SPT in 1995. The consortium promised to expand the network to 4.4m lines by the end of 2000, when its fixed-line monopoly will end. *Robert Anderson, Prague*

■ SPORTS GOODS

Puma sales jump 12%

Puma, the German sports equipment and apparel group, saw sales last year climb almost 12 per cent to about DM547m ($299m). However, it warned yesterday that growth this year and next would be slowed by the Asian crisis. "Apart from the planned product and marketing offensive and the rise in costs this will cause, Puma expects a fall in licensing revenues," it said. Pre-tax profit last year rose 13 per cent to more than DM73m. All product groups contributed to the growth and in the final quarter sales were more than 20 per cent higher than a year earlier. *AFX, Herzogenaurach*

■ FRANCE

Schneider names new chairman

Henri Lachmann, 59, chairman of Strafor Facom, the French office equipment and tool group, is to be the next chairman of Schneider. Mr Lachmann, a Schneider board member since October 1996, is to succeed Didier Pineau-Valencienne at the helm of the electrical engineering group in January 1999. *David Owen, Paris*

Failed Slovak bank may be sold

By Robert Anderson in Bratislava

The Slovak National Bank is seeking to save Investicna a Rozvojova Banka (IRB), the country's third-largest bank which collapsed into administration in December, by selling it to Slovenska Poistovna, the state-owned insurance company.

The bank, which may be sold for a nominal sum of Sk1, incurred a loss of Sk1.16bn ($32.6m) in the first three quarters of 1997.

IRB's capital adequacy ratio at the end of September 1997 was 1.57 per cent – compared with the 8 per cent advised by the Bank for International Settlements – and its owners have been unable to inject further capital or attract a strategic investor.

The rescue plan is a severe setback for VSZ, the Slovak steelmaker and the country's largest industrial group, which in 1996 bought a direct stake of just under 15 per cent and indirectly controls a further 25 per cent.

The investment was a key part of VSZ's strategy to diversify outside the steel industry. VSZ also owns a 20 per cent stake in Poistovna.

Vladimir Masar, the national bank governor, said the bank's Sk1bn share equity – in which the state National Property Fund also has a 35 per cent stake – could in effect be written off. He said IRB's capital would be reduced by the extent of the bank's losses.

The proposed deal would be a compromise between the need to inject capital into the bank and the government's wish to limit growing foreign control of the banking sector.

Slovenska Poistovna would inject Sk500m to bring IRB up to the legal minimum liquidity, and a foreign strategic partner – believed to be a European bank – would then raise the capital to more than Sk2bn.

The exact share division between the insurer and the foreign partner is still being negotiated, but if Poistovna concedes majority control, IRB would be the first big state-owned bank to be sold to foreign investors.

Tibor Kasiak, head of banking supervision, said the national bank itself had not received any official offers from abroad, but admitted that Slovak investors had "no possibility" of recapitalising IRB.

IRB became the first Slovak bank to be brought down by a liquidity crisis. The final straw was when the 1998 government budget failed to compensate it for low-interest housing loans made under communism.

Dollar strength limits growth at Autoliv

By Tim Burt in Stockholm

Autoliv, the Swedish-US automotive components group, yesterday said its full-year profits were held back by currency translations and price competition among airbag and seat-belt manufacturers.

The company – which merged last year with Morton International of the US to create one of the world's largest airbag and seat belt suppliers – blamed the strong US dollar and double-digit price cuts for its slower-than-expected growth.

Pre-tax profits last year rose modestly, from $300.5m to $317.5m, on sales ahead 2 per cent at $3.27bn.

Gunnar Bark, chief executive, said profits and sales would have been about 6 per cent higher had it not been for the twin impact of currency volatility and price cuts.

"Price competition has been intense and we will have to redesign components and reduce costs to minimise further negative pressures," he said.

Mr Gunnar warned that Autoliv would be asking its suppliers to absorb some of the price cuts demanded by car manufacturers, and that it would consider taking over suppliers that failed to deliver lower costs.

"When suppliers cannot meet our wishes, we will have to do more ourselves through vertical integration – even if the rest of the industry is moving in the opposite direction," he said.

Last year, Autoliv acquired Marling Industries, the UK seat-belt webbing manufacturer, for £31m ($50.7m) as part of that process.

The chief executive confirmed the group was seeking savings of about $100m a year from the Morton merger, achieved mainly through its previously announced restructuring charge of $99m.

Mr Gunnar was speaking after Autoliv reported operating profits up from $345.6m to $356m in the year to December 31.

Intensifying competition forced the company to cut airbag prices by 11 per cent in the year, although seat-belt prices saw smaller declines. That helped reduce operating margins from 10.8 per cent to 10.6 per cent in the fourth quarter.

Operating profits in the last three months of the year were unchanged at $90.8m in spite of higher sales of $856.8m, compared with $838m.

Earnings per share were flat at 45 cents for the final quarter, but they rose from $1.69 to $1.81 for the year.

In Stockholm, shares in Autoliv yesterday fell SKr2.50 to SKr275, against a 12-month high of SKr346.50.

● ASG, the Swedish transport and logistics group, yesterday announced a SKr1.2bn share redemption following the disposal last year of Frigoscandia, its largest division, for SKr3.1bn ($382m).

The company, which sold the cold storage business to Security Capital Industrial Trust of the US, said it would redeem both A and B shares on a 1-for-4 basis. By selling Frigoscandia, ASG has wiped out its net debt and built up cash reserves of SKr1.5bn.

ASG also said it would take a SKr55m charge against fourth-quarter profits to cover the closure of regional offices in Sweden and Denmark and the restructuring of its Russian operations.

The move is expected to generate annual savings of [illegible]

Wünsche eyes Joop

Wünsche, the German group with interests from property to foodstuffs, confirmed yesterday that it was in negotiations to buy a controlling stake in Joop, the fashion and perfume company, **writes Frederick Stüdemann in Berlin.**

However, it denied reports that a deal had already been signed.

Wünsche, which is based in Hamburg, has been looking for acquisitions in the fashion and textiles sector since Peter Littmann, former head of the Boss clothing company, took over as chief executive last year.

Mr Littmann, whose arrival at Wünsche prompted a rise in the company's share price, has been seeking to give the group a clearer and more high-profile identity by establishing a presence in the fashion business.

Talks about Joop have been taking place with the fashion company's two main shareholders – the designer Wolfgang Joop (pictured above), who owns 40 per cent of the shares, and the company's managing director, Herbert Frommen, who has a 50 per cent stake.

Mr Joop and Mr Frommen have toyed with the idea of selling their stakes, partly because of reported differences between the two.

In recent years Joop, which derives about one-third of its turnover from scents and which had sales of around DM500m ($273.5m) in 1997, has successfully established a presence in the North American market with its designer clothes and jeans.

Roche in Iceland research

By Clive Cookson, Science Editor

Roche, the Swiss pharmaceutical group, yesterday announced a research agreement that could bring DeCode Genetics, Iceland's first biotechnology company, $200m over five years.

DeCode and Roche said the deal was the largest so far in the fast growing field of human genomics: discovering how genes work together to cause disease.

The two companies aim to discover the genes involved in 12 common diseases – four cardiovascular (heart and circulation), four psychiatric and neurological, and four metabolic diseases.

Kari Stefansson, DeCode president, said schizophrenia and adult-onset diabetes would be priority targets.

The agreement includes a small equity investment by Roche in DeCode, research funding and milestone payments as the projects proceed over five years.

DeCode's main selling point is the genetic homogeneity of the Icelandic population, whose geographical isolation has left the gene pool little changed since the original Viking settlers arrived more than 1,000 years ago. For technical reasons, this makes it much easier to follow the inheritance of genes in Iceland than in countries with more heterogeneous populations.

Other advantages for DeCode, as a gene hunting company, include Iceland's detailed genealogical and health records going back several generations, its highly educated population and an excellent healthcare system that helps researchers to track the progression of disease.

"DeCode's access to this unique source of genetic information is a huge opportunity to shed new light on the causes of common diseases and to find truly effective ways to diagnose, prevent and treat disease," said Jonathan Knowles, Roche head of pharmaceutical research.

David Oddsson, Iceland's prime minister, said: "I view this agreement as a huge step towards securing an important role in the Icelandic economy for high technology industries."

DeCode was founded last year with $12m funding from venture capitalists in Europe and North America, though Icelanders hold a majority stake in the company.

Skoda overtakes Fiat in eastern Europe

VW investment has helped the Czech carmaker become biggest producer in the region

Skoda, the Czech subsidiary of Volkswagen of Germany, has overtaken the Polish operations of Fiat of Italy to become the leading car producer in central Europe.

Output increased by 35.8 per cent to 357,405 units last year, exceeding for the first time the 329,000 cars produced by Fiat Auto Poland.

Skoda is expected to stretch this lead with plans to increase production to more than 400,000 cars this year and to more than 500,000 in 2000, helped by the launch of new products.

It is a level and diversity of output never achieved in the communist era, when Skoda cars were assembled in part by prison labour.

The company is being radically restructured, as its products gradually absorb VW technology and new manufacturing facilities are built at its Mlada Boleslav plant north of Prague.

A third range of larger Skoda cars, aimed at taking the company further upmarket, is under development for launch in 2001/2002.

It will be based on the Volkswagen group's so-called B chassis platform, which already supports the Audi A4 and the VW Passat executive cars.

Skoda is also expected to replace its best-selling Felicia small car in late 1999 with a new model based on a common chassis platform with the VW Polo.

Growth last year was driven by the introduction of its second range, the Octavia family car launched in 1996.

Octavia production, supported by strong demand in export markets, is set to double this year to around 120,000 and an estate car version is to be added in the spring.

The assimilation of the core of the old Czech car industry into the VW group has been scarred by periodic friction between the hard-nosed regime of Ferdinand Piëch, VW chief executive, and the Czech government, which retains a 30 per cent stake.

But despite occasional misgivings in Prague about handing control to Germany of one of its biggest industries, Skoda has emerged under VW management as a key element in the Czech economy's transformation.

Several of the leading Czech industrial groups still under domestic control continue to falter under heavy debt burdens and half-hearted restructuring.

But Skoda Auto – under VW control since 1991 – has become the Czech Republic's biggest company by turnover and its biggest exporter.

It has also become the magnet for attracting a large number of western automotive components suppliers to invest in the Czech Republic and develop a flourishing components sector.

Skoda production has been increasing by between 20 and 35 per cent a year for each of the past three years, and the company has moved strongly into profit, as it starts to reap the benefits of growing investment in new products and in expanded production capacity.

Net profits, to be announced in March, are expected to exceed Kč2bn ($56.66m) on a turnover of more than Kč85bn compared with Kč163m achieved on sales of Kč59bn in 1996, when Skoda ended several years of losses.

Skoda Auto, which is selling its products in 70 markets worldwide, is leading the VW group's push into east European car markets, but it has also become a standard bearer for Czech foreign trade, as the country struggles to reduce a still yawning deficit in the current account of the balance of payments.

Skoda sales rose 29 per cent last year to 336,334 units, with more than 70 per cent exported, most importantly to Germany (30,097), Slovakia (28,723), Poland (27,881), Italy (22,336) and the UK (16,639).

Sales in central and east Europe (including the Czech Republic) rose 24 per cent to 168,844 units last year, while sales in west Europe climbed 39 per cent to 125,338.

Domestic sales could weaken this year from the 100,459 achieved in 1997, with the Czech economy under pressure, but the devaluation of the Czech currency is helping Skoda's competitiveness in export markets.

Residual suspicions in Prague about the motives of VW's top management in Wolfsburg were fanned again last month by the German carmaker's move to take a special dividend out of Skoda by lowering its basic equity capital by DM500m ($273.5m) on the grounds that the company was overcapitalised.

Criticism was softened, however, by the fact 30 per cent of the special dividend – reflecting the size of the remaining Czech state shareholding – is going into Czech government coffers, and the government has also received assurances about VW's commitment to further expansion of Skoda operations.

Around DM2.1bn was invested between 1991 and 1997, and a further DM2.4bn is planned from 1998 until the end of 2002. Work has already begun on the construction of a new metal stamping plant.

VW is also seeking to expand the assembly operations of its Czech subsidiary to other countries with feasibility studies and negotiations under way for possible projects in Russia, India, Egypt and Bosnia, the last one using the old VW plant in Sarajevo.

In Poland, where sales jumped by 76 per cent last year to 27,881, Skoda is preparing to upgrade production at the VW plant in Poznan to full CKD (completely knocked-down) kit assembly over the next two years.

At Mlada Boleslav Skoda is working at close to full capacity with three-shift working in many operations and negotiations with the unions under way on a repeat of last year's heavy schedule of extra Saturday shifts.

The workforce has grown from 18,000 to around 20,000 in the past year to cope with the jump in production, but with a tight local labour market Skoda is having to import a growing part of its workforce and is currently employing around 2,600 foreign workers, chiefly from Poland.

Kevin Done

Diageo reorganises board structure

By John Willman

Diageo has responded to criticism of its board structure with a shake-up which will reduce the number of executive directors and bolster the non-executives with up to three new appointments.

The food and drinks group, formed in December by the merger of Guinness and Grand Metropolitan, has been criticised for the domination of the 15-member board by 10 executive directors. These include two drinks chiefs and two human resources specialists.

Finn Johnsson, the Swedish deputy chief executive of Diageo's drinks subsidiary, will leave the group at the end of February with compensation of £800,000 – barely three years after joining Guinness from Euroc, Sweden's largest building products group.

David Tagg, group services director, will take early retirement on July 31 after 18 years with Grand Metropolitan, the company which merged with Guinness to form Diageo.

At the same time, Sir George Bull, joint chairman and former chairman of Grand Metropolitan, will retire and become a non-executive director.

The non-executive directors will be bolstered by the proposed appointment of Robert Wilson, chairman of Rio Tinto, the world's largest mining group formed last year by the merger of RTZ and CRA of Australia. A further non-executive appointment will be made "in due course."

The departure in May of Brendan O'Neill, chief executive of Guinness Brewing, to join Imperial Chemical Industries, will reduce the number of executive directors to six. There will be eight non-executives once the forthcoming appointment has been made.

"The board structure as originally conceived was the one to get us through the merger," said Tony Greener, joint chairman. "Now we're looking for the right structure to drive Diageo forward."

The announcement satisfied one institutional investor which had been critical of the Diageo board structure. "The old board was far too overweight in executives," he said. "It will be much more manageable by the end of the year."

But another critic said Diageo had yet to give any signals on the appointment of a non-executive deputy chairman to counterbalance the executive chairman – as recommended by the Hampel report on corporate governance published last week.

Barclays' loss from BZW exit rises to £688m

By George Graham

Barclays ran up trading losses of £219m ($366m) last year in the equities and advisory businesses it sold to Credit Suisse First Boston and ABN Amro, far higher than most analysts had expected.

The trading losses come on top of a net loss of £340m from restructuring costs and the discount on net asset value paid by CSFB, and of a £129m charge for goodwill previously written off against reserves.

The cost to Barclays of its exit from the BZW equities investment banking business has risen to £688m – a painful price for a unit that generated only £400m of revenues a year, and lost £11m in 1996.

The trading losses are lower and the restructuring provisions higher than those announced by National Westminster Bank, Barclays' closest UK rival, on the similar disposal of its equities businesses.

Brokers *said that by getting the* bad news out of the way, Barclays had ensured that its full-year results, due in two weeks, would not be overshadowed by BZW.

Martin Taylor, Barclays chief executive, said the bank had decided on the disposal because it made no commercial sense to continue investing in those parts of the investment banking business: "This decision has been reinforced *by subsequent market develop*ments. Although the process of withdrawal has not been easy, it has been achieved without letting our clients down."

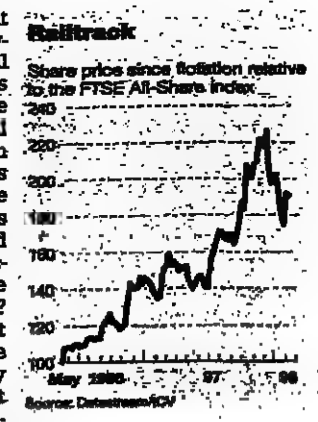
Barclays said the trading performance of the equities and advisory divisions had been affected by difficult market conditions, as well as the uncertainty over their future.

In addition, the bank had to offer lock-in payments to keep key staff *in the business before it was trans*ferred to CSFB.

The results include a £20m loss on equity derivatives announced in last year's interims from changes in the taxation of UK dividends. Barclays recorded further losses in this business segment, which analysts estimated would amount to an additional £15m.

LEX COMMENT

Railtrack



What pound of flesh might Railtrack demand for saving the channel tunnel rail link? The fact that its shares have soared since the London & Continental Railways consortium entered its death throes suggests it can find value in the project where others could not. How so? Did LCR not talk of a financing gap that the private sector could not bridge? Assuming the government decides to increase the subsidy, the most likely outcome is that the project is split. That way the company building the link would not have the added burden *of bankrolling Eurostar's losses.*

Bidding could be reopened and the consortia beaten by LCR – and possibly new bidders – could resubmit their offers. Given there is no reason why Railtrack should receive preferential treatment, it may well find itself outbid by big project management concerns such as Bechtel and Kvaerner. At minimum, cancellation of numerous Asian infrastructure projects should ensure fierce competition for the link that should drive down Railtrack's returns.

Any subsidy to Railtrack should not come from relaxing regulation of its ownership of the national rail network. Linking the two would be opaque. Clearly-defined government-guaranteed track access charges from Eurostar should tempt Railtrack on board. And if Railtrack can negotiate not having to build the costly last stretch into central London until Eurostar's revenues are more of a known quantity, any *subsidy could be even smaller.*

Nomura may sell Peabody

Nomura International, which is *considering* a bid for the Energy Group, is believed to be in discussions over the possible sale of Peabody, Energy's US coal company, to Lehman Merchant, writes Virginia Marsh.

It is thought that Nomura is in a three-way contest for Energy Group – which also owns Eastern Electricity in the UK – with Texas Utilities and PacifiCorp, the Oregon-based electricity group.

Texas Utilities is also *thought to have had discus*sions on the sale of Peabody with Lehman Merchant, the private equity arm of Lehman Brothers, the US investment bank.

The battle has developed following PacifiCorp's original £3.65bn ($5.9bn) agreed offer lapsed after it was referred to regulators. PacifiCorp is expected to make a new bid soon.

Nomura International, the European arm of the Japanese investment bank, confirmed yesterday it planned to break-up Energy Group if it succeeded in its bid for the Anglo-American utility.

Peabody was put together with Eastern Group – the UK integrated electricity and gas producer and supplier – to form the Energy Group just a year ago. It was subsequently spun-off from Hanson to complete the former conglomerate's demerger last February.

Nomura – whose possible bid is being run by its London-based principal finance group – also tried to quell speculation that its offer saw a high debt level for Eastern's regulated units.

Guy Hands, who heads Nomura's principal finance group, said: "We recognise that any offer that resulted in excessive gearing would be unlikely to clear the necessary regulatory hurdles."

Predators stalk Energy Group

The utility's future is being planned, writes Virginia Marsh

Just a year after its birth, Energy Group is being stalked by predators plotting its demise.

Both Nomura and Texas Utilities – two late entrants to a contest that PacifiCorp had looked to have in the bag – appear to be planning to break up the group.

In a sense, this is no surprise. As even some of its executives admitted at the time, the driving force behind Energy Group's formation was not industrial logic but the need for a suitable structure through which Hanson could spin-off its energy interests.

Thus, Peabody, the large US coal company that the UK conglomerate had acquired for £1.2bn ($1.9bn) in 1990, was lumped together with *Eastern Group*, which it had bought for £2.5bn in 1995.

For Texas, the sixth largest US utility, its interest in the group is in owning Eastern as it expands its overseas power businesses.

Outside its main domestic utility, which covers 5.9m people, Texas' main interests are in Australia where it bought Eastern Energy in 1995, but subsequently lost out to the UK's PowerGen in the *bidding for the A$2.4bn* ($1.7bn) Yallourn power station. But, separating Peabody from the UK business could also help Texas sidestep the regulatory obstacles that have held up rival US utility PacifiCorp. The Oregon-based group, which is interested in keeping Energy Group together, is still the market's front-runner.

Its original £3.65bn bid lapsed after being referred to regulators. It has now obtained clearance in the UK; but it is thought it may have to agree to dispose of some of its coal interests to gain approval in the US.

As Texas has coal interests too, it might also face an enquiry if it tried to buy Peabody. Without the coal company, it hopes it will not need *regulatory approval* on either side of the Atlantic. If PacifiCorp has been cleared in the UK, any bid it makes should not need to be referred, it argues.

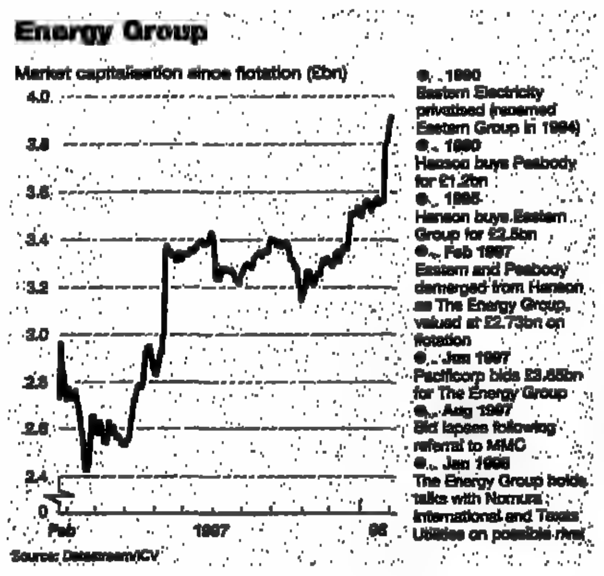
The logic behind the bid Nomura is mulling has yet to be revealed. It said yesterday that if its bid succeeded it would split the group into two businesses and keep on their management teams with a view to listing the companies in their respective countries.

Like Texas, however, it is also thought to be in talks with Lehman Merchant on the venture capital unit tak*ing over Peabody.*

It also said it would ensure the investment grade rating of Energy Group's regulated UK electricity business would not be threatened by excessive gearing. This is seen as important in securing regulatory approval for an offer from the Japanese bank, although analysts still believe that a bid from a financial investor like Nomura would be referred to the UK Monopolies and Mergers Commission.

Yesterday's statement has also left analysts wondering where the value is in the deal for Nomura. "There was *a clear case for splitting up* the group before PacifiCorp came in a year ago," one analyst said. "There was a lot of scepticism about the group and it was undervalued because investors, at least in the UK, didn't understand or like Peabody.

"But, with the recent rise in the share price, the group is fully valued and it is hard to see what extra value Nomura could extract by buying the group and then selling it back to the same investors. It does not appear to have plans to change the companies' strategies and would not have the synergies of a trade buyer."



Charter sells its railway track arm to Harsco

By Andrew Edgecliffe-Johnson

Charter, the engineering group that spans welding, industrial fans and fastenings for joining railway tracks to sleepers, yesterday sold its track maintenance business to Harsco, the US steel reclamation group.

The sale of Pandrol Jackson for a provisional $71m came as Jeffrey Herbert, Charter's chairman and chief executive, announced he would split his job this summer.

Nigel Smith, Charter's chief operating officer, will become chief executive, but Mr Herbert seems unlikely to take a non-executive role. "I won't be here seven days a week. I'll be here less than I am today," he said.

Charter did not give sales figures for Pandrol Jackson, which designs, makes and operates under contract track maintenance equipment and had £39.4m ($65.8m) of assets at December 31.

Mr Herbert said the division made operating profits of £155,000 in 1996, adding: "Contracting margins are much lower than in other businesses. If you make one or two per cent margins you think you're doing well."

Charter, which bought the Michigan-based business eight years ago, said privatisation in the UK and continental Europe made track maintenance and contracting "most unattractive". It turned down the opportunity to buy British Rail's infrastructure service companies in 1995.

Charter is keeping its railway track fastenings business, which accounted for most of the track division's £16.2m profit in 1996. Resilient fastenings for high-speed trains are replacing the traditional "dog spike".

The disposal will reduce Charter's £300m borrowings by about £40m, leaving interest cover of more than six times.

Its shares rose 4½p to 601p yesterday, but have fallen from 880p since October as analysts have cut profit forecasts.

Daniel Bevan of Credit Lyonnais Laing, who has cut his estimate of 1998 profits from £130m to £102m, voiced concerns that the Esab welding business looked more exposed to weak economic environments in developing markets than expected.

It also appeared that Howden, the fans business bought for £380m last year, was not as profitable as originally thought, he said.

GUS adds French cards to its pack

By Peggy Hollinger

Great Universal Stores, the mail order house, has paid £70m ($117m) for a cheque and debit card processor in France in a bid to become one of that country's leading providers of credit risk services.

GUS, which changed its corporate profile dramatically just over a year ago *with the £1bn acquisition of* Experian, the US financial information services group, is buying SG2 from Société Générale of France.

John Peace, Experian's chief executive, said SG2 would provide a substantial platform for tackling the French market with new products and services.

Experian, which offers a range of financial information on consumers, businesses and property, as well as providing outsourcing activities such as credit card processing and call centres, already has a market research business in France.

The company said France showed the most frequent use of bank and credit cards in Europe and was crucial to its strategy of building a pan-European business. It said the country showed an annual average for 1994 of 29 card transactions a head, against just 14 for the European Union as a whole.

Moreover, the market for bank cards has grown substantially in the last eight years, from about 15m in issue to more than 24m. However, US credit cards, *which fuelled strong growth* in the UK market, have a relatively small presence.

Mr Peace said the group expected to boost SG2's sales by combining Experian's credit card processing business with SG2's debit card *services*. "There is a strong synergy between Experian and SG2," he said. "SG2 will complement our existing card-processing operations in the UK, Germany and the Netherlands, and Experian will enable SG2 to expand its processing capability into other areas."

Analysts expect the acquisition to be earnings enhancing, after financing costs, in the year to March 1999.

The business made operating profits of £5m on turnover of £85m in 1997.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Angerstein	6 mths to Nov 30 ☆	-	(-)	3.35	(2.14)	2†	(1.5)	1.5	Mar 6	1.2	-	10.2
BAA	9 mths to Dec 31	1,294	(1,084)	416	(397)	30.9♦	(28.9)	-	-	-	-	12.4
Beale	Yr to Nov 1 ★	62.4	(55.6)	4.33	(4.47♥)	29.1	(28.8)	6.5	Apr 7	5.75	9.5	8.3
Black (Peter)	6 mths to Nov 29	95.6	(75.6)	11.3	(9.23♥)	12.8	(11.32)	1.75	Apr 30	1.52	-	8.2
Highland Timber ϕ	Yr to Dec 31	0.266	(0.399)	0.115L	(0.033)	2.57L	(1.99)	-	-	-	-	-
Media Business	6 mths to Oct 31	92.4	(82.8)	0.965	(0.585)	2.53†	(1.56✠)	0.45	Mar 6	0.35 ✠	-	1.06✠
Methven's ϕ	Yr to Sept 30	3.6	(2.38)	0.005L♠	(0.09L♠)	0.07L	(2.91L)	-	-	-	-	-
Milner Estates	6 mths to Nov 30	18.9	(14.3)	2.75♠	(1.35)	9.9†	(6.8)	1.386	Mar 31	1.98	-	7.89
Whittard	6 mths to Nov 30	14.2	(11.5)	0.433♠	(0.55)	1.4	(2.2)	1.15	Feb 24	1	-	3.1

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Baronsmead	Yr to Dec 31	136.1	(121.82)	0.04	(0.36)	0.23	(2.8)	nil	-	1.75	-	1.75
Edinburgh Small Co.	6 mths to Dec 31	129.6	(119.77)	0.275L	(0.023L)	0.39L	(0.03L)	-	-	-	-	0.25
[illegible]	6 mths to Nov 30	265.1	(261)	3.2	(3.73)	1.79	(2.09)	1.5	Mar 18	1.5	-	3.95
Murray Intl	Yr to Dec 31	481.8	(424.9)	17.9	(17.2)	15.1	(14.4)	[illegible]	May 22	4.22	14	13.2

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ☆Comparatives restated. ♦Excluding windfall tax. ϕAim stock. ✠Adjusted for share consolidation. ★Comparatives for 53 weeks.

SRI LANKA

Twin-track peace efforts may founder because the government lacks a majority big enough to push through changes to the constitution. **Mark Nicholson** reports

Promise of peace still not fulfilled

Lest anyone in Sri Lanka was in danger of forgetting, a trio of Tamil Tiger suicide bombers last month reminded the country why it might feel celebration of its 50th anniversary of independence from Britain this year is not wholly appropriate.

The bombers killed 10 bystanders in a blast which ripped chunks out of the Temple of the Tooth in Kandy, the holiest of sites for Sri Lanka's Buddhist Sinhalese majority.

This year also marks the 15th year of the bloody "ethnic conflict" waged now exclusively by the Liberation Tigers of Tamil Eelam (LTTE) for a "homeland" for the largely Hindu Tamil-speaking minority, some 17 per cent of Sri Lanka's 18m people.

More than 50,000 people have died in the conflict which has lulled and raged in the island's north and east over the past 15 years, but has never been fought more intensively than in the past 30 months.

This is a sad irony for the People's Alliance government of Chandrika Kumaratunga, president, who swept to power in 1994 with 62 per cent of the popular vote, largely on the promise of bringing peace.

What Mrs Kumaratunga's election victory did not do, however, was to secure for her coalition government more than a slender majority in the 225-seat parliament.

Not enough, therefore, for her government to change Sri Lanka's old and rigid constitution, something which requires a two-thirds majority. And it is on this fact that her government's desire to force political headway towards peace may founder.

Mrs Kumaratunga began her term by seeking direct talks with the Tigers. These failed when the Tigers unilaterally resumed hostilities.

Since then, her government has pursued two tracks towards peace: a concerted military assault designed to weaken and marginalise the Tigers – arguably the most dangerous and well-organised guerrilla force in the world – and political attempts to rewrite Sri Lanka's constitution to devolve more powers than ever to the regions, and thus to the Tamil-majority north and east.

Both tracks are intimately linked. While the government is aware it cannot fight the Tigers back to the negotiating table, it has sought at least to deprive them of territory and weaken them thoroughly.

At the same time, through its constitutional proposals, it has endeavoured to win consensus between the PA and the opposition United National Party, the two main Sinhalese political groupings, by granting as much autonomy as is politically acceptable to the Tamils.

The government believes that only by demonstrating consensus in the Sinhalese-dominated south will it ever be possible to tempt the Tigers to talk – it is seen as a necessary, if far from sufficient, condition for peace.

"If the PA and the UNP agree on a set of proposals which the intellectual community and peace-minded Tamils think is an acceptable solution, that would change the political balance," says one leading Tamil politician. "This would then be too important an issue for the LTTE to ignore, otherwise theirs becomes a struggle for its own sake."

On the battlefield, the government has, at heavy cost, won some successes.

In December 1995, the Sri Lankan army succeeded in evicting the LTTE from the Jaffna peninsular where it had for five years defended and run a de facto mini-state, financed by local taxes and the LTTE's sophisticated international support network among the 500,000-strong Tamil diaspora.

Having pushed the Tamils into the jungles of the north and east, the army nine months ago set about securing a route north through their heartland to supply Jaffna.

Although there are more easily defensible and winnable routes north, along the eastern coast for example, the army command chose to push directly into their midst, say military analysts, with the intention of inflicting the heaviest possible Tiger casualties.

Because the Tigers know the army will advance up the A9 road to Killinochchi, they are forced to fight fixed battles along the way.

The result has been a bloody series of battles which has cost the 100,000-strong Sri Lankan army perhaps 1,800 dead and 5,000 wounded, but has also inflicted losses of perhaps 1,000 on the Tigers.

No-one is sure of the full fighting force of the Tigers; estimates ranging wildly between 5,000 and more than 10,000. But the government believes it has weakened the Tigers substantially already.

"They are today a typical guerrilla force, when not so long ago they were a semi-conventional army," says G. L. Peiris, constitutional affairs minister.

But this battle has proved costly to sustain. The army has so far cleared only two-thirds of the 70km road after nine month's fighting, and keeping the A9 open is also expected to place severe strain on the Sri Lankan army, which some analysts report may have suffered 20,000 or more desertions in the past year or two.

Moreover, the political effect of the military campaign depends upon the government's success in pushing through its devolution proposals. And here the government has made less headway.

Mrs Kumaratunga's government set out these proposals more than two years ago. In essence they are designed to federalise the whole of Sri Lanka, turning the present unitary state into a "union of regions". Each of nine new regional authorities, including the Sinhalese-dominated south, would be accorded substantial powers over land, finance, foreign investment, policing and infrastructure, economic and social development.

Behind the notion of federalising the whole state lies the belief that by so doing the Sinhala majority – 74 per cent of the population – can be seen to be treating the Tamil majority areas with equality.

"Politically it enables the government to be seen to be even-handed," says one diplomat. "There have been a lot of packages or attempts somehow to make the Tamils special.

"The government would claim this is the first not to make them special or different, while putting their concerns within a package."

Some senior Tamil figures agree. Neelan Tiruchelvam, a Tamil constitutional lawyer who helped draft the proposals, calls it a "paradigm shift" in addressing the problem of Tamil desires for self-determination.

In particular, he says, for the first time it dethrones the notion of Sinhalese majority power by granting all the intended regions parity and it accords equality to the Tamil and Sinhalese tongues as official languages for the first time.

It also, he says, grants significant powers to the regions, and thus to the Tamil-led authorities which would result.

"The regions would have more power than the states do in India; more than the provinces in Malaysia, even in some cases more than Canadian provinces," he says.

But there is also strident opposition to the proposals, both from Buddhist and Sinhalese leaders but also many Tamils, who believe the proposals fall well short of dignifying any Tamil-run region with the "honour" of "nationhood". More significantly, however, the proposals have so far failed to win the support of the UNP.

However, the UNP recently broke its public ambivalence over the proposals, rejecting them as a package which would "lead to chaos and weaken the centre".

The UNP said that while it was in favour of power-sharing with the Tamils it rejected "devolution" which it said was unnecessary in such a small state.

Mrs Kumaratunga now appears set to call the UNP's bluff by calling a non-binding referendum on the proposals later this year.

The aim would be to reach beyond bipartisan politics and aim to demonstrate majority popular support in the south for the devolution proposals. If the UNP continues to resist the devolution package, the PA hopes to be able to portray the party as a "spoiler" to peace.

Such a move is fraught with risks. It is unclear, for example, if there is majority support for the proposals. The government believes that backing of 54 or more per cent would enable it to press ahead, despite the UNP, and perhaps find "innovative" – in the words of Mr Peiris – or possibly even extra-constitutional ways of pushing its package through, even without the two-thirds parliamentary majority it technically requires but of which it is at least a dozen seats short.

There is also the difficulty of phrasing a referendum question on so complex an issue, and one which would not simply turn the plebiscite into a proxy two-party battle for votes – which would threaten to defeat the objective of showing southern consensus for offering a strong measure of Tamil autonomy.

The PA government is determined to bring the issue to a head this year. It thus describes Sri Lanka's 50th year of independence as one of the most critical in its history.

"This is the biggest issue this country has ever faced," says Mr Lakshman Kadirgama, foreign minister. "So can we not get together, rise above party politics and resolve our ethnic problem?"

Failure to do so this year would remove much of the political impetus sustaining the cruel and costly war effort in the north. It might

Continued on Page II

Constitution

• **Official name**
Democratic Socialist Republic of Sri Lanka

• **Form of state**
Executive presidency based on French model

• **The executive**
President is head of state and exercises all executive powers; elected for a period of six years by universal adult suffrage; may dissolve parliament at will

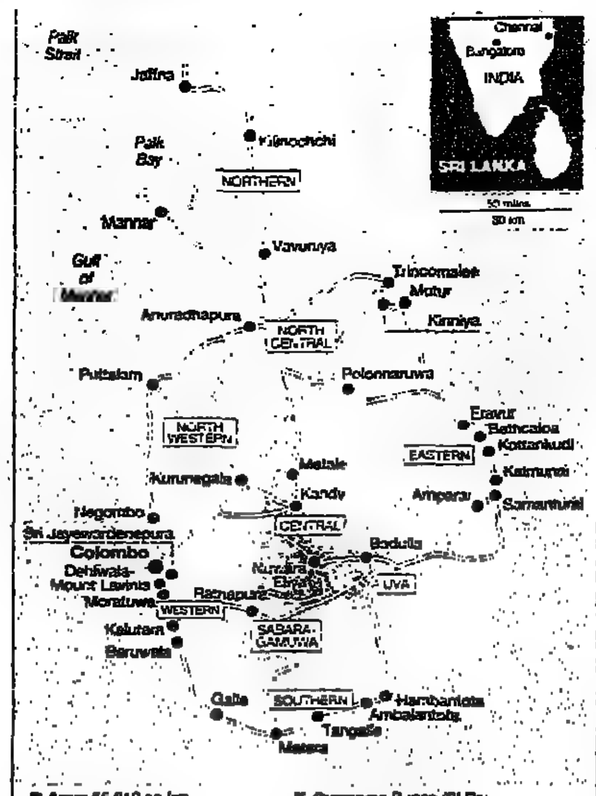
• **National legislature**
Unicameral legislature; 225 members directly elected for six years by a system of modified proportional representation

• **Local government**
Under the 13th amendment to the constitution passed in November 1987, extensive powers devolved to nine directly elected provincial councils, primarily with a view to meeting Tamil demands for greater autonomy. Elections to seven of these councils were held in May 1993.

• **National elections**
August 1994 (parliamentary) and November 1994 (presidential); next elections due August 2000 (parliamentary) and November 2000 (presidential)

• **National government**
Chandrika Kumaratunga took office as president in November 1994 after winning a record majority. The People's Alliance formed a minority government in August 1994 with 105 out of the 225 seats in parliament; it is dependent on the support of ethnic minority parties

Source: Datastream/ICV; EIU



■ Area: 65,610 sq km
■ Population: 18,300,000 (1996 est)
■ Languages: Sinhala, Tamil, English
■ Currency: Rupee (SLRs)
■ Exchange rate: 1997 av \$1 = SLRs 58.9494; January 28 1998 \$1 = SLRs 62.0650

Economic summary

	1997 Estimate	1998 Forecast
Total GDP, nominal (\$m)	15,653	16,929
Real GDP growth (annual % change)	5.6	5.4
GDP per head (\$)	844	901
Inflation, average (annual % change in CPI)	10.0	9.0
Agricultural output (annual % change)	4.0	3.0
Services output (annual % change)	5.5	4.8
Industrial production (annual % change)	7.0	7.5
Unemployment rate (% of workforce)	11.5	11.5
Money supply, M2 (annual % change)	12.8	12.2
Foreign exchange reserves (\$m)	2,100	2,300
Tourism & other foreign exchange receipts (\$m)	303	329
Government expenditure (% of GDP)	28.1	27.2
Total foreign debt (% of GDP)	54.4	54.0
Current account balance (\$m)	-773	-895
Merchandise exports (\$m)	4,522	5,269
Merchandise imports (\$m)	-5,748	-6,212
Trade balance (\$m)	-1,226	-944

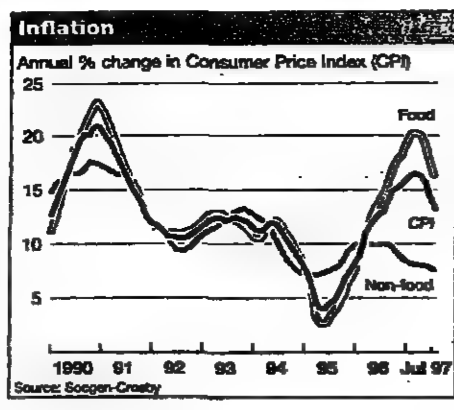
Main trading partners (share of total trade to world, 1996)

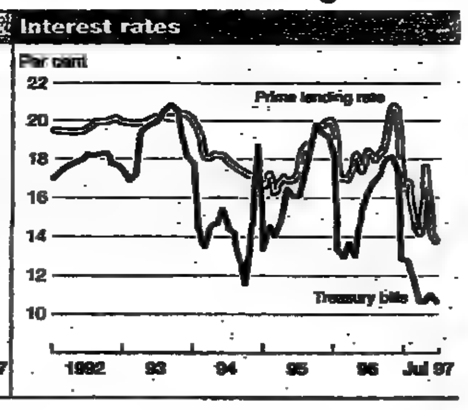
Exports		Imports	
US	34.1%	India	11.2%
UK	9.5%	Japan	9.9%
Japan	6.2%	Hong Kong	7.0%
Germany	5.85%	S.Korea	7.0%
Belg/Lux.	5.3%	Singapore	7.0%

THE ECONOMY • by Mark Nicholson

Business seems relatively buoyant despite the conflict

The economy appears to be in good shape with a solid platform for growth this year





The physical shockwaves of the Tamil Tiger bomb which blasted Colombo's twin-tower World Trade Centre last October can still be traced in the boarded windows which rise two-thirds of the way up the 35-storey building, and in the wood-blanked windows of hotels and government offices adjacent.

A few hundred metres away, cranes preside over the rising steel and concrete shell of a new central bank building, replacing that devastated by another Tiger bomb in January 1996, with the loss of dozens of lives.

The scars wrought by terrifyingly effective Tiger bombers are clear enough in Fort, the cosy business centre of the Sri Lankan capital. But the full economic harm wrought by Sri Lanka's 14 years of ethnic conflict is harder to assess.

Despite the ever-present threat of further bombs, and the inconveniences of blocked roads, diversions and checkpoints brought by the blanket security in Colombo city centre, business seems to carry on relatively buoyantly and regardless.

"There's a certain resilience that has built up," says Manjula de Silva, an investment manager with CTC-Eagle fund management. "It takes something very dramatic to interrupt things."

Indeed, in spite of the bombings and the intensity of the civil war in the north, Sri Lanka's economy looks in good shape. Growth in gross domestic product last year looks likely to have exceeded 6 per cent and growth this year should reach about 5.4 per cent – very respectable figures by current Asian standards. Moreover, even the more war-sensitive barometers are set fair. Tourist arrivals, for example, rose 21 per cent last year, to 368,640 visitors, despite the big Colombo bombs.

Most remarkable, perhaps, has been the country's overall macro-economic performance.

Despite annual military spending of SLRs44bn, or about 5 per cent of GDP, the three-year-old People's Alliance government was last year able to cut the budget deficit to 7.6 per cent of GDP from 9.5 per cent, and has targeted a further cut to around 6.5 per cent this year.

By retiring some SLRs10bn of public debt with privatisation proceeds last year, the government has cut its interest costs and lowered its borrowing requirements. This, combined with sharp cuts in recurrent government spending has helped ease down both interest rates and inflation.

In some respects, such fiscal prudence is a positive byproduct of the need to finance the war. "In a way, it has forced the government to take steps it probably wouldn't have, like privatisation, public sector reform and cutting subsidies," says Azra Jafferjee, chief economist at Jardine Fleming in Colombo.

All of which steps have provided a solid-looking platform for further growth this year, although the 6 per cent reached last year appears out of reach. That growth represented chiefly a recovery from a disastrous 1996, in which drought led both to sharp falls in agricultural output and a grave power crisis given the island's then heavy dependence on hydro-electricity.

"1997 was particularly good because 1996 was particularly bad," says Ms Jafferjee. "It's almost completely a base effect."

There are other reasons for more caution towards growth this year. These, chiefly, are worries about the exchange rate in the context of Asia's financial crisis, the possible effects of the El Niño meteorological phenomenon on agricultural output, and some questions about whether the government can sustain its fiscal rectitude.

Sri Lanka's rupee depreciated by 8 per cent last year in a slide managed by the central bank and aimed at minimising the effects on export competitiveness of sharper currency falls among Asian trading rivals.

The bank has ruled out devaluation, but says it will continue to depreciate the rupee where necessary.

Nevertheless, exporters are concerned that, with the currency perhaps 20 per cent overvalued in real terms, the central bank's gradualism could erode export growth.

The Exporters' Association of Sri Lanka last month warned the government that exports would suffer unless there was a depreciation of at least 12 per cent against the dollar this year. "Most sectors will be affected," says Lyn Fernando, the association's chairman, "and some are already being hurt."

The country's rubber sector is already suffering, he says, with many local users already substituting imported and cheaper Malaysian or Indonesian rubber.

Garments exporters, who saw foreign sales rise 20 per cent last year and who account for more than half of Sri Lanka's export earnings, will also be hurt, he says, particularly if squeezed, and rival Asian economies seek to export their way out of trouble.

"There is enormous garments capacity in these countries," says Mr Fernando.

"To keep these industries running, they might decide to export at zero profits, which would hurt our margins significantly."

Tea exports, which earned $62m last year against $54m in 1996, appear unlikely to be badly affected, with prices high and demand strong from Confederation of Independent state countries, many of which are paying premiums for quality Sri Lankan tea. The greater threat to tea sales, analysts believe, could be the effects of El Niño, which has historically presaged drought and poorer harvests in Sri Lanka.

On the fiscal front, meanwhile, most analysts believe the government will be able to sustain the past two years' prudence, although there is some concern about the expected move in April to introduce an *ad valorem* General Sales Tax, to rationalise existing indirect taxes. Although the move is seen as generally as desirable to reintroduce buoyancy in recently flat tax revenues, there is concern at the rate likely to be levied.

For its introduction in April, the government has set a starting rate of 12.5 per cent. Most economists believe the tax can be revenue-neutral only at higher rates, of perhaps 16-18 per cent. But the government, conceding there may be some revenue loss in the short term, believes it is politically expedient to introduce the new tax at a lower rate.

"I'm willing to go along with a rate of 12.5 per cent," says A.S. Jayawardena, governor of the central bank, "but there is always scope to increase it on the run. What is most important is to get the people to accept it."

Overall, therefore, most economists believe Sri Lanka will this year post growth well in line with its historical trend for the past 20 years of between 5 and 6 per cent. The question, however, is how much faster growth could be without the war. And this is to entertain guesses as to the effects of diverted government spending, deferred or deterred investments and wider economic opportunity costs.


Bomb debris in Colombo's financial district: business appears to carry on regardless — Picture: Reuter

There are few solid answers. There is no question that the war's direct costs exceed the budget figure of SLRs44bn devoted to military spending. Costs of extra policing and security alone add to the bill. And neither is there any question that diverted spending on the war comes at the cost of public investment into infrastructure, or that the war has deterred much foreign investment into infrastructural and other big ticket projects.

Moreover, at least a third of the country – the war zone of the north and much of the east – is effectively non-productive.

There are also the longer-term effects of curtailed government spending on health and education. One western economist speaks of a "slow growing crisis in the social sector" – one which threatens to undo much of Sri Lanka's success in leading South Asia in almost all human development indicators.

Mr Jayawardena suggests these indirect costs of war are worth two percentage points of GDP growth, and there is a world of economic difference between growth rates of 5-6 per cent and once "Tigerish" ones of 7-8 per cent. But while the economy clips along at its current and respectable rate, the war continues to seem affordable.

"The government has good advisers telling the president that if you want to win the war, you have to keep the economy in shape," says a western economist. But while the economy of the south remains "resilient" and defiantly "business as usual", there is less incentive for the politicians of the south to feel forced to find urgent ways of ending the war to save the economy.

THE STOCK MARKET • by Mark Nicholson

Asian crisis casts shadow

The market may not realise its full potential due to factors associated with Asia

Local brokers and analysts cannot remember when so many of the economic fundamentals underpinning the Colombo stock market have looked so rosy. Growth is strong, topping 6 per cent last year and poised for about 5.4 per cent this year, the government's macro-economic management appears sound and a further budget deficit cut looks feasible again this year, interest rates have accordingly fallen, and the important tea sector is doing well.

Moreover, the Colombo market looks cheap, trading in a range around eight times prospective 1998 earnings. Most brokerages are also expecting a crop of good corporate results, putting average earnings per share growth for this year around 23-30 per cent. But local investors alone cannot drive Colombo's small bourse, capitalised at about $2.5bn. Foreign investors account for at least half the market's turnover and foreign flows have tended to determine market levels.

Early last year, for instance, relatively modest foreign inflows of about SLRs1.6bn pumped the All Share Price Index up towards 880 points by July, a gain of more than 40 per cent on the start of the year. Then came the Asian financial crisis, and foreign selling helped the market lose 23 per cent of its July peak.

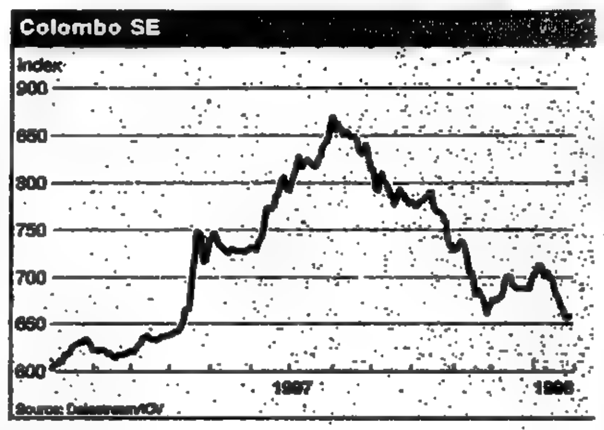
Whatever the fundamentals, therefore, many analysts believe the ASPI will be unlikely to rally to its potential as long as overseas fund managers stay wary of things Asian. Moreover, the Asian crisis has produced two further factors likely to depress Colombo stocks.

The first is that by virtue of the steeper falls in other Asian markets, funds with allocations in Sri Lanka have seen these rise proportionately relative to other bourses. This de facto rise in the Colombo weighting makes many analysts pessimistic that fund managers will want to commit significant fresh funds into the market, however undervalued it looks. Some believe Sri Lanka, indeed, offers a profit-taking opportunity. "This is one market where you can still book profits," says Anush Amarasinghe, head of research at SocGen-Crosby. "And you might see foreigners moving out further wherever they see a rise and a selling opportunity."

The second is pressure on Sri Lanka's own currency. Export associations have already warned the government that key export sectors such as garments, rubber and ceramics will be affected by the sharp devaluations among the island's Asian trading rivals.

The central bank has ruled out a devaluation, saying instead it will "adjust" the currency in the light of these pressures. Last year, the rupee fell 8 per cent, the depreciation accelerating towards the end of the year. Most analysts expect a further 10-15 per cent depreciation this year.

But until it becomes clear where the rupee will steady,



foreigners have another reason to remain sidelined – which is why most analysts would like to see the central bank make the bulk of the expected depreciation as quickly as possible.

There are other uncertainties. Sri Lanka has historically suffered drought in the wake of the El Niño environmental effect in the Pacific Ocean, and farmers are bracing for a possible consequent dip in rice, tea and rubber production. These would hurt the economy broadly and, in the case of tea particularly, prospects for plantation stocks.

Plantations may also be affected by labour unrest, with workers preparing for a battle over a 25 per cent pay claim.

The better news, however, is that many of these uncertainties may have cleared by the second quarter. By then, too, it will be clearer whether the government is managing to make its recent fiscal prudence stick and keep interest rates lower.

By April, in addition, regulations governing two big state institutions, the National Savings Bank and the Employers' Provident Fund, should have been amended to permit them for the first time to invest in equities, rather than their current staple of fixed income securities. The pair currently manage funds worth a total of $5bn.

"By no means all of this will come the market's way," says Panduka Ambanpola, head of research at Jardine Fleming. "But even 5 per cent could make an enormous difference and certainly improve volumes."

Given broadly shared optimism that the economy this year should see GDP growth of at least 5.4 per cent, therefore, most brokerages expect a mid-year rally.

Indosuez W.I Carr Securities and SocGen-Crosby are both forecasting the ASPI will reach the upper 800s by the year end, with Jardine Fleming seeing the potential to breach 950.

Brokerages tend to agree that – the tea plantation sector apart – the best bets lie in sectors likely to benefit most from the strong domestic economy – chiefly commercial banks, notably Sampath Bank, food and beverage companies, including Ceylon Grain Elevators, the poultry company, and Ceylon Brewery.

Promise of peace still not fulfilled

Continued from Page 1

result in fresh general elections, which might well lead in turn to a wholesale re-evaluation of the political peace process, entailing further delay. And any further delays in resolving the ethnic conflict will sustain the increasing economic attrition of the war on Sri Lanka's small economy.

While growth last year of 6 per cent was, by Asian standards, robust – and the economy looks set fair to clip along at gross domestic product growth of 5.4 per cent this year – the war is diverting government investment in health, education and infrastructure, and deterring foreign investment. "The war costs us two percentage points of growth a year," says A. S. Jayawardena. "If we had 6 per cent, we could get 8, if not for the conflict."

In the view of many, the war is dividing the country in any case, devolution or otherwise. Not only does a third of the island – the north and much of the east – lie outside the country's economic development, these areas have spawned a generation of mostly Tamil youths who know nothing but war and deprivation.

"I worry that there are areas which have become both literally and metaphorically areas of darkness, which have been deprived of proper amenities for 10-15 years," says Mr Tiruchelvam. "In some ways the consequences of this war are now more serious than the [illegible]."

CONSTITUTIONAL REFORM • by Amal Jayasinghe

'Union of regions' proposal fails to halt bloodshed

The biggest set-back for the political reforms has come from the UNP

When President Chandrika Kumaratunga of Sri Lanka unveiled her radical plan to end years of ethnic bloodshed, she said it was an attempt to save the country from disaster and to unify a divided nation.

Thirty months later, the country is embroiled in its biggest military offensive and her sweeping devolution plan is no closer to getting into the statute books.

International acclaim mounted for the plan that envisaged turning Sri Lanka into a "union of regions" with each unit having extensive powers over land, law and order and the right to raise foreign loans and receive aid.

The regional units were to have legislative powers with the right to their own independent tax structures. In theory it could lead to regional differences in rules and regulations governing business in a country of only 62,000 sq km.

The country was set to scrap the all-powerful presidency, adopt a brand new constitution which was to include such items as a "right to live", a privilege unknown to many earlier. Sri Lanka was on the road to peace. Almost.

Within four days of Mrs Kumaratunga announcing the power-sharing plan, the separatist Liberation Tigers of Tamil Eelam (LTTE) struck in Colombo, the capital, bombing a government office and killing 21 people.

Since then, Tiger rebel attacks have intensified, with key economic and religious landmarks becoming targets of suicide bomb attacks that have claimed hundreds of lives, caused enormous damage and hurt investor confidence.

The Tiger guerrillas were proscribed by the Sri Lankan government on January 26 this year, a day after the group was accused of bombing the country's holiest Buddhist shrine, the Temple of the Tooth, in the central hill resort of Kandy, killing 16 people.

The biggest set-back for the political reforms comes from the main opposition United National Party (UNP) whose parliamentary support is crucial for Mrs Kumaratunga to adopt a new constitution.

Ranil Wickremesinghe, the UNP leader and former prime minister, said his party was "totally rejecting" Kumaratunga's political package and was making its own proposals, after nearly two years of all-party deliberations.

"We say the political package in its present form will not end the war," Mr Wickremesinghe said. "We are saying that devolution is necessary but that by itself it will not solve our problems."

"There should be a new political culture in the country. There should be not only devolution of power but also sharing of power." Mr Wickremesinghe says the present proposals will cause chaos at the periphery and weaken the centre.

Mrs Kumaratunga has little room to manoeuvre. Although she won an unprecedented 63 per cent of the popular vote in the November 1994 presidential election, her People's Alliance party has a slender one-seat majority in the 225-member national assembly and lacks the mandatory two-thirds majority to realise reforms.

The power-for-peace plan proposes the union of Tamil-dominated areas of the island's east with the Tamil-majority north to create a larger territorial unit which will account for one-third of the land mass and two-thirds of the country's coastline.

It also envisages the creation of a separate region for the country's second-largest minority, the Moslems, in the multi-ethnic eastern province.

Later, members of the majority Sinhalese community in the eastern province will also have an option of going their own way after a complicated process of referendums.

Political analysts say creating a Moslem region could create two problems where the government was trying to solve one, faced by Sri Lankan Tamils who are the largest minority accounting for 12.6 per cent of the population.

Moslems who speak the Tamil language in the east of the country consider themselves a distinct community rather than a religious group only.

The Moslem community which forms about 7.1 per cent of the country's 18.3m population, is now divided on whether to support the idea of a separate administrative council for itself.

Hard-line Sinhalese-Buddhist clergy warn that there could be more intercommunal and religious violence if regions are created on ethnic lines in a country where more than 55,000 have been killed in the past two decades.

"The real ethnic war will begin if these proposals are implemented," said high priest Maduluwawe Sobitha.

He said the clergy supported devolution of power on economic and geographic considerations. But the monks are also ideologically divided on the issue.

Mrs Kumaratunga and her key minister have said that war alone will not resolve the Tamil separatist struggle. Government forces are currently engaged in opening a key land route in the north of the country. Meanwhile, the opposition maintains that Mrs Kumaratunga's political package by itself will not end the bloodshed.

With little progress on the reforms, Mrs Kumaratunga's frustrations were evident when she told reporters recently that she was willing to talk "even with the devil" about her political package.

COLOMBO PORT • by Mark Nicholson

Growth forecasts are outstripped

The port has a big geographical advantage, but its productivity needs to improve

Colombo port has become South Asia's biggest, busiest and fastest growing container port, mostly by dint of geography.

Sitting sheltered beneath India's southern tip, the port has fast developed in the past decade as South Asia's chief shipping hub, feeding from smaller vessels from Burma, Bangladesh and both coasts of India, west to Karachi in Pakistan, and increasingly East Africa and South Africa too, for trans-shipment of goods along the main sea routes to and from Europe, the Middle East and south-east Asia.

Hence the government's excitement about Colombo's prospects, and proposals for phased investments of about $1bn over the next few years.

These should more than quadruple its operating capacity by early next century from its current annual 1.5m TEUs ("twenty-foot equivalent units" – the industry term for sea containers).

The planned investments would be Sri Lanka's biggest and most ambitious.

But while Colombo's geographical advantage is unrivalled in the region, its efficiency is not, according to many leading shipping lines using the port. In particular, rates of container loading and unloading compare poorly with the standards of ports such as Kobe, Singapore or, closer to home, Dubai.

Efforts to resolve this, rather than simply adding berth and crane capacity, they suggest, may prove the most significant determinant of Colombo's future.

To date, however, Colombo has considerably outstripped growth forecasts made for it earlier this decade.

Against projections that volumes might rise by 10 per cent or so annually, the port has posted increases of 25 per cent and above in the past two years.

Throughput in 1997 rose to 1.68m TEUs, a 30 per cent improvement on the year earlier – pushing the port beyond its designed capacity.

More than 70 per cent of this volume is trans-shipment, and about 80 per cent of this figure is trans-shipment of Indian trade, chiefly container imports and exports to and from Bombay, Madras, Cochin and Tuticorin.

It is largely the sharp rise in trade with neighbouring India, resulting from the country's recent liberalisation, which has fuelled Colombo's growth, and the prospects for even greater increases in Indian trade, as economic reforms take root, which feed Colombo's ambitions.

As a matter of "urgency", says Ranjith Wickramasinghe, chairman of the Sri Lanka Ports Authority, work has already begun on rebuilding an existing north pier, currently used as an oil terminal, to add two additional container berths to Colombo's existing five, and two additional slots for smaller "feeder vessels".

The work, to cost $60m and financed by Japanese OECF aid, is expected to be complete within 18 months and would take designed capacity to around 2.3m TEUs.

Next will come redevelopment of the Queen Elizabeth Quay (QEQ), which juts like a protective arm across the port's mouth.

But plans here have been dogged by delay and some controversy. Since P&O, the ports and shipping group, teamed up with John Keells, one of Sri Lanka's biggest conglomerates, to submit a proposal in 1995 to undertake the $200m project, negotiations have crawled forward.

The project, which would create three upgraded 300m berths from the existing container and feeder berths and treble container capacity, met immediate and stern opposition from the port's unions, who feared the BOT project would bring heavy job losses.

Moreover, the consortium is still to finalise "terms and conditions" for the project with the government. Having missed one signing deadline in January, the project may not now be finalised until March.

"It's the first time there's been private sector port development in Sri Lanka," explains Mr Wickramasinghe, "therefore it's something new – therefore it's a hot subject."

When finalised, however, the development is expected to keep Colombo abreast of volume growth until about 2003. Thereafter, however, the port foresees the need for its most ambitious expansion, the creation of what would amount to a new 11-berth and 4m TEU capacity port facility to be built out into the sea adjacent to the QEQ. "It would be Sri Lanka's biggest-ever project," says Mr Wickramasinghe.

The first task would be construction of a new breakwater, a $350m-$400m project which would have to be financed by the Sri Lankan government because the payback period for a breakwater far exceeds any viable commercial lease period.

Construction of the proposed 11 berths are then expected to be offered on a BOT basis to private contractors, entailing likely total investment of $400m.

But such ambitions rest on the assumption that Sri Lanka's geography will continue to make it the region's unrivalled hub. And many shipping lines wonder if the Sri Lankan government is not taking its geography too much for granted, and paying too little attention to the port's productivity.

"There may not be such a rosy future for Colombo if things stay as they are," says the general manager of one big shipping line. "At the end of the day, it all comes down to crane productivity."

Although the bigger shipping lines generally do not have to lay over ships waiting for berth space, there is general dissatisfaction with the rates at which ships are loaded and unloaded.

The standard industry measure of efficiency is the number of crane moves per hour – with one move generally representing the loading or unloading of a single TEU container.

For the biggest ships, with the best organised and stacked containers, Colombo averages about 50 crane moves an hour at best, which shippers say is just a third of the rates at ports such as Kobe or Singapore.

For smaller, less well organised ships, the rate is as low as 15 moves an hour, according to line managers – below rates at smaller, closer ports such as Dubai.

By common consent among the bigger shippers, the problems lie both in low labour productivity and highly bureaucratic management.

"The port is generally overmanned and not terribly efficiently run," says one.

"It's partly labour and partly the management, and certainly there's not much sign the management wants to do much to push on the labour front.

"There are efficient managers in the port, but above you often find the dead hand of civil servants."

The hope among shipping lines using Colombo is that the P&O development, once it gets under way, might prod the rest of the port into higher levels of productivity.

And if this is achieved, it could even reduce the urgency for costly investments in further berths and equipment.

THE TEA INDUSTRY • by Amal Jayasinghe

Success leads to problems

Despite excellent results last year, the industry may face great difficulties

Tea, Sri Lanka's main export commodity, has had an excellent year with production increasing and prices surpassing all expectations. But the surge could also paradoxically spell doom to the industry.

With production increasing by about 8 per cent and export revenues soaring by 22 per cent, the industry should record 1997 as one of its best years in a long time, industry officials said.

But this year could be a different story altogether. The party seems to be nearing an end for Sri Lankan tea. As prices rise rapidly, the industry's leading trade union is once again pressing its claims for higher wages and threatening strikes.

"Every time we have a boom, it is short-lived and followed by a sharp fall," said Derek Samarasinha, a senior tea planter. "This is probably the first time we have had a slightly more prolonged run of good prices."

He said the wage increases demanded by trade unions would push tea companies to the wall. The main tea-producing companies used to be owned by the state which absorbed heavy losses. But, under a privatisation plan began in 1995, the government has sold 18 of the 23 state-owned plantation companies and the privatisation of the rest will be completed in a few months, said Mr Mano Tittawela director of the main privatisation authority.

Although labour has now been transferred to private owners in most companies, the tea industry expects government intervention in the wage demand issue because of the consequences to the entire economy. Tea has been the mainstay of the Sri Lankan economy for more than a century.

Unions are demanding a 25 per cent pay increase which the managements say is unrealistic given the high volatility of tea prices. They have offered a 12 per cent pay rise. Talks with the main Ceylon Workers Congress union continue.

Sri Lanka's tea fortunes are mainly due to a drought last year in Kenya, a competing producer, and a better-than-expected demand from the Commonwealth of Independent States, Mr Samarasinha said.

Indian elections have also fuelled greater domestic demand for the tea produced in that country – and thereby reduced the quantity of black tea offered on the world market. Tea exports have been trimmed in India to keep retail prices down and voters happy.

The weekly tea auctions in Colombo, which is the world's largest market, saw the average price rise to SLRs145 a kilo, compared with SLRs99.27 a year ago with strong buying interest.

"The current price levels would not have been forecast by even the most optimistic person few months ago," said Lallith Ramanayake, director at leading broking house John Keells.

But many feel the bubble is about to burst. Unusually heavy rains in mountainous tea-growing regions last year could be due to the El Niño weather phenomenon which set off droughts this year, the industry believes.

Mr Samarasinha, who runs the Pussellawa Plantations, said: "We are going to face a drought, higher wages and then we will really be up against the wall. This is like a sword of Damocles over our heads." He said state-owned plantation companies collapsed because they buckled under political pressure to pay higher wages to some 800,000 workers in the tea, rubber and coconut estates which then made them uncompetitive.

Sri Lanka is the world's largest tea exporter, conducts the world's biggest tea auction and is also the world's most expensive place to grow tea because of the heavy wage component.

Yet tea is the country's top foreign exchange earner. Earnings rose to SLRs38.1bn, in the first 11 months of 1997, up 22 per cent on the corresponding period in 1996.

Production rose to 252m kg compared to 233m kg in 1996. Kenya, Sri Lanka's main competition, saw its production fall to 173.2m kg in the first 11 months of 1997 compared to 213m kg in the corresponding period of 1996.

The flip side is that Sri Lanka tea brokers are worried that rapidly rising prices will drive many consumers to cheaper teas – which could eventually be damaging for all.

The Sri Lanka industry believes that poor quality teas from Argentina and Papua New Guinea are depressing prices in the short term and causing long-term damage to the industry.

"Very cheap, poor quality teas from Argentina are getting into the American market," said Mr Ramanayake. "This will eventually hurt everyone."

He said that ready-to-drink tea sold in Europe and North America actually had less than 5 per cent of tea in it and that too was very poor quality compared to what is available elsewhere.

Once the pure Sri Lankan teas leave the shores of the country, they are often blended with cheaper teas to bring down retail prices. An international blend of tea would typically have a large percentage of cheaper Kenyan and Indonesian teas to give it body, Indian tea for appearance and Ceylon tea to give it quality and character.

Tea workers: backing wage demands with strike threats *Picture: Reuter*

Prices fall despite weak economic data

GOVERNMENT BONDS

By Simon Davies in London and John Labate in New York

The sharp recovery in Asian stock markets was greeted with less enthusiasm in the government bond markets, where weak economic data in both the UK and US were not enough to prevent a slide in bonds.

"There's a good deal priced into the markets now," said Andy Bevan, senior bond strategist at Goldman Sachs. "I don't think bonds are going to lurch in the opposite direction, but we need something new, or I think will get a correction."

US TREASURIES pulled back as stocks surged. By midday the benchmark 30-year bond had fallen 22/32 at 103¾, yielding 5.857 per cent.

Shorter-term securities were mixed. The two-year note was down 1/32 to 100 1/16, yielding 5.342 per cent, and the 10-year note was 5/32 lower at 104 1/16, yielding 5.553 per cent, but Treasury bills rose.

The National Association of Purchasing Management monthly index fell to 52.4, suggesting US expansion continues to be strong while prices remain low – a bullish reading for the bond market.

The Bureau of Economic Analysis also released figures for consumer spending and personal income. Consumer spending in December rose 0.3 per cent while income rose 0.4 per cent, both lower than November's figures.

However, rising US and overseas stock markets had a greater impact on bonds.

The Federal Reserve Open Market Committee begins a two-day meeting today, but most analysts do not expect a change in interest rate policy.

Investors are also awaiting Friday's release of employment data. "There's some concern that January's employment report might be stronger than expected, after the warm weather we've had," said Richard Gilhooly, strategist at Paribas Capital Markets in New York.

UK GILTS got off to a strong start yesterday, on the back of news from the manufacturing sector that the purchasing managers' index showed an absence of inflationary pressure.

Richard Iley, UK economist at ABN Amro, said: "Manufacturing really is in the doldrums. And the transaction impact of strong sterling is going to be a long drawn out and painful affair. A technical recession is a definite possibility."

The short end of the yield curve responded favourably, but the longer-end was hit by the early weakness on Wall Street, and the March contract settled ⅜ lower at 123⅛ on light volume of just 34,000 contracts. The yield spread against bunds widened to 1 basis point to 110.

Mr Iley said: "It is too early to say that we've seen a peak in interest rates. But I don't think that we'll see a rise this week." The monetary policy committee will deliver its next pronouncement on rates on Thursday.

GERMAN BUNDS spent most of the day in positive territory, supported by greater optimism over the political outlook for President Clinton and speculation that Thursday's unemployment data would paint a gloomy economic picture.

The March future had risen 0.17 by early afternoon, but it turned lower on the back of Wall Street and settled down 0.08 at 106.43. Activity remained subdued, with about 107,000 contracts traded.

Analysts expect support for the market, given the possibility of weak unemployment data and the consensus that there will be no move on rates this week.

ITALIAN BTPs were rocked by comments by Theo Waigel, Germany's finance minister, suggesting Spain was in line to join European monetary union but Italy still had to answer fears over its commitment to budgetary tightening.

The March future opened lower and settled down 0.14 at 117.27, but the yield spread against bunds was stable at 41 basis points, suggesting the market remains confident of Emu membership.

Nonetheless, a sharper fall in short-dated bonds indicates fears that interest rates may remain high. Mr Bevan said: "The best guess is that the long-expected rate cut is not going to arrive until the Emu decision is made. The Bank of Italy seems to want to hold something back in reserve."

Improvement in emerging market debt

By Edward Luce

Emerging market debt appears to have turned the corner, with secondary bond prices continuing to improve yesterday following the rally triggered by last week's agreement to reschedule South Korea's short-term debt liabilities.

Fitch IBCA, the recently-merged credit rating agency, yesterday recognised South Korea's new-found stability by upgrading its sovereign credit rating by five notches to BB+. The country is expected to regain investment grade status once the formal loan exchange is completed by early April.

"[Korean] access to international capital markets and export credit lines should be eased significantly by the conclusion of the bank debt deal," said the agency.

The J. P. Morgan emerging market bond index tightened to a yield spread of 530 basis points over US Treasuries by late afternoon in London, a significant improvement on the range of 550 to 630 basis points seen before last week's agreement in Seoul.

"The market trend is definitely improving, but at what speed and to what degree is still uncertain," said an official at a US bank in London. "Things could still go wrong in Russia and we have not as yet had a resolution of Indonesia's short-term debt problems."

The rally has been led by buying of Asian sovereign and quasi-sovereign bonds, with the Korean Development Bank's 10-year dollar bond tightening to a yield spread of about 320 basis points yesterday from more than 900 basis points before Christmas. Petronas, the Malaysian oil company, has seen its bonds tighten to a yield spread of about 250 basis points over 10-year Treasuries from 350 points at its low point.

Similar spread improvements – of between 30 and 50 per cent – have benefited most emerging market instruments in the past three weeks and especially over the past five days. Of the most liquid instruments only Russian principals (rescheduled debt originating from the Soviet era) are trading below the levels at which they began the year.

"Broadly speaking this is a rally, but I would suggest emerging market debt is trading at the top of its existing range rather than in a new and better range," said Richard Gray, chief emerging markets economist at Bank of America.

Analysts say most benchmark bonds are still trading at bid/offer dealing spreads of between 50 and 100 basis points. This is an indication of a continuing lack of liquidity in the market, although traders confirm that turnover is at its highest so far this year. "Last Friday was the first day this year you could call a lively market," said one official.

Syndicate heads say it will take some time for big emerging market borrowers to return to the primary market in a substantial way.

Some, however, draw comfort from the positive response show to Argentina's recent deals. Brazil is set to follow its neighbour with a debut euro-denominated offering shortly.

Fannie Mae launches more benchmark notes

INTERNATIONAL BONDS

By Edward Luce and Samer Iskandar

Borrowers eager to continue their hectic funding programmes for 1998 held back yesterday to make way for the launch of an expected jumbo issue.

FANNIE MAE, the largest US mortgage lender, continued to build its "surrogate Treasury" yield curve with the second $4bn issue under its recently-launched benchmark note programme.

The 10-year issue, which follows the inaugural five-year deal launched last month, was priced to yield 25 basis points over Treasuries. This compares with 19 basis points on its first deal, which had tightened yesterday to about 16 basis points.

Morgan Stanley, joint lead manager with Goldman Sachs and J.P. Morgan, said the deal was "substantially" oversubscribed in both the US and Europe.

"These are huge liquid deals and investors know they have to be a part of them," it said. The spread on the bonds tightened marginally after launch.

Syndicate officials would not confirm the timing of Fannie Mae's next benchmark deal, but one suggested a seven-year offering would make sense as a next step.

SAM, a special purpose vehicle set up to securitise mortgages from Bank of Scotland, launched a two-tranche issue. The deal is similar to a transaction launched last year, also through lead manager SBC Warburg.

The bonds are backed by "shared appreciation mortgages" or SAMs, which offer house owners low mortgage rates in exchange for sharing rises in house prices with the lender. Investors in the bonds receive below-market coupons, but benefit from capital gains when the houses are sold.

Yesterday's deal was offered to US investors (under Rule 144a of the Securities and Exchange Commission), who are expected to buy up to 30 per cent of the issue.

AMERITECH, the US regional phone company, increased its debut eurobond from a planned $500m to $750m after consultation with investors. The deal, which will partly finance the group's recent $3.2bn acquisition of a 42 per cent stake in Tele Danmark, was priced to yield 46 basis points over five-year Treasuries.

ABN Amro, joint lead manager with Merrill Lynch, said demand was particularly strong from Belgium, where Ameritech is known for its 18 per cent stake in Belgacom, the local telephone company.

CADES, the French state-backed entity set up to manage the social security system's debts, launched its expected SFr500m issue of five-year bonds. UBS was lead manager.

Cades said the deal was in line with its "willingness to enlarge its investor base". It is planning to issue FFr50bn to FFr60bn of bonds this year, depending on market conditions.

Last year, the government added FFr87bn to the initial debt of FFr120bn for Cades to manage. The repayment schedule was extended by five years to 2014. Benoit Jolivet, chairman, recently said Cades would manage its debt more actively in the next three years, to adapt maturities to the new profile of its liabilities.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Federal Natl Mtg Assoc+	4bn	5.75(b)#	99.659R	Feb 2008	0.15R	+25(6½Aug07)	Goldman/JPM/MSDW
Ameritech Capl Funding Crp	750	5.875	99.62R	Feb 2003	0.275R	+46(5½Jan03)	ABN Amro/Merrill Lynch
Kingdom of Sweden(a)	250	6.125	101.753R	Dec 2002	0.25R	+20(5⅝Oct02)	ABN Amro Hoare Govett
ABB International Finance	150	4.50	97.00R	Mar 2001	0.1875R	+18(5⅝Nov00)	Commerzbank
STERLING							
SAM, Class 3	46.56	(b1)	(b1)	2073	1.00	–	SBC Warburg Dillon Read
SAM, Class 4‡	203.67	(b2)	(b1)	2073	1.00	–	SBC Warburg Dillon Read
Residential Mtg Secs 3(c)‡	63.84	(c1,l)	100.00R	Jun 2038	0.225R	–	UBS
ITALIAN LIRE							
European Inv'ment Bank(d)‡	500bn	(d1)	100.00	Feb 2013	–	–	Cariplo
Deutsche Finance Neths	300bn	Zero	59.01R	Feb 2008	0.25R	–	Deutsche Morgan Grenfell
EUROS							
LW Rentenbank(e)	150	4.75(s)	99.527R	Dec 2003	0.25R	+6(l)	BNP
SWISS FRANCS							
Cades	500	2.50	102.10	Mar 2003	2.00	–	UBS

Final terms, non-callable unless stated. Yield spread (over govt bond) at launch supplied by lead manager. +Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: Fixed re-offer price; fees shown at re-offer level. a) Fungible with $500m. Plus 69 days accrued. b) Shared Appreciation Mortgages. b1) Priced Thursday. b2) 60% x 3-mth Libor –30bp. c) Average life: 3 yrs. Callable from Mar 08 at par. c1) 3-mth Libor +22bp to Mar 08, then +50bp. c2) Also issued: Class M of £7.75m and Class B of £4.41m via Deutsche. d) Domestic. d1) 11.15% in yr 1, 6⅛% in yr 2-4, then 15% –2 x 12-mth Libor; max 6⅛%, min 3% from 2009. e) Pays in Ecu prior to Emu. l) Over interpolated yield. l) Long 1st coupon. s) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Feb 2	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	04/00	7.000	103.6068	5.28	+0.02	+0.08	–0.13	–0.95
	10/07	10.000	129.4638	5.91	+0.04	+0.07	–0.06	–1.50
Austria	09/99	7.000	104.4200	4.11	–	–0.05	–0.27	+0.41
	07/07	5.625	103.3600	5.16	+0.01	–0.03	–0.25	–0.66
Belgium	01/00	4.000	99.9400	4.03	+0.02	–0.03	–0.31	+0.52
	03/07	6.250	107.9800	5.13	–0.02	–0.05	–0.32	–0.69
Canada	09/99	4.750	99.6019	5.01	–	+0.39	+0.03	+1.04
	06/07	7.250	112.3000	5.39	+0.02	+0.08	–0.12	–1.15
Denmark	12/99	6.000	103.1000	4.21	+0.02	–0.02	–0.30	+0.32
	11/07	7.000	111.6800	5.43	+0.01	–0.08	–0.22	–1.01
Finland	01/99	11.000	106.5726	3.77	+0.13	–0.01	–0.20	+0.15
	04/08	7.250	114.2380	5.08	–0.02	–0.11	–0.32	–0.97
France	01/00	4.000	99.9900	4.00	+0.01	+0.02	–0.25	+0.59
	10/04	6.750	111.1300	4.77	+0.01	–0.02	–0.24	–0.24
	10/07	5.500	103.2100	5.07	–	–0.03	–0.24	–0.50
	10/25	6.000	104.7200	5.66	–	–0.02	–0.20	–0.84
Germany	09/99	4.000	100.2100	3.86	–	–0.02	–0.26	+0.53
	11/04	7.500	115.0000	4.84	+0.01	–0.01	–0.27	–0.46
	07/07	6.000	106.7800	5.07	–	–0.04	–0.25	–0.62
	07/27	6.500	111.5900	5.68	+0.01	–0.02	–0.23	–0.90
Ireland	04/99	6.250	101.7000	4.69	+0.01	–0.12	–0.29	–1.09
	08/06	8.000	117.9200	5.33	+0.01	–0.08	–0.21	–1.30
Italy	05/00	6.000	102.4100	4.86	+0.04	+0.05	–	–1.42
	06/02	6.250	104.7300	5.00	+0.02	–	–0.13	–1.54
	07/07	6.750	109.6500	5.42	+0.01	–0.01	–0.15	–1.79
	11/26	7.250	118.1000	5.93	+0.01	–0.01	–0.12	–1.93
Japan	03/00	6.400	111.6690	0.81	+0.02	+0.03	+0.16	+0.15
	12/02	4.800	115.7100	1.44	+0.02	+0.01	+0.15	–0.28
	09/05	3.000	108.0700	1.86	+0.03	–0.01	+0.14	–0.53
	09/17	3.000	105.3300	2.65	+0.02	–0.05	+0.10	–0.51
Netherlands	11/99	7.500	105.9100	3.95	+0.03	–0.01	–0.25	+0.43
	02/07	5.750	105.1500	5.03	+0.01	–0.03	–0.26	–0.60
New Zealand	02/00	6.500	98.5491	7.30	–0.08	–0.09	–0.31	+0.16
	11/06	8.000	108.0233	6.75	+0.01	–0.08	–0.28	–0.61
Norway	01/99	9.000	104.4900	4.25	–0.02	–0.07	–0.13	+0.42
	01/07	6.750	110.2600	5.28	–	–0.08	–0.23	–0.59
Portugal	03/99	8.500	104.5110	4.32	–0.02	–	–0.34	–1.09
	02/07	6.625	109.0535	5.34	+0.01	–0.06	–0.27	–1.32
Spain	07/98	7.400	104.3148	4.30	–0.03	–0.04	–0.16	–0.89
	03/07	7.350	114.4616	5.31	+0.01	–0.02	–0.24	–1.33
Sweden	01/99	11.000	105.7160	4.76	+0.02	–0.09	–0.34	+0.15
	08/07	8.000	117.3020	5.60	–0.01	–0.05	–0.39	–1.27
Switzerland	03/00	5.000	106.9500	1.61	+0.03	–0.03	–0.27	–0.31
	06/07	4.500	112.7700	2.92	+0.01	–0.09	–0.36	–0.89
UK	08/99	6.000	99.1641	6.59	+0.07	–0.05	–0.21	+0.17
	11/04	6.750	103.1250	6.18	+0.04	–0.02	–0.24	–1.00
	12/07	7.250	108.5938	6.08	+0.04	–0.01	–0.20	–1.32
	06/21	8.000	124.1172	6.06	+0.03	+0.01	–0.17	–1.54
US	10/99	5.625	100.3910	5.38	+0.01	–0.05	–0.24	–0.53
	11/04	7.875	113.0230	5.54	+0.03	–0.07	–0.15	–0.71
	08/07	6.125	104.1720	5.55	+0.03	–0.07	–0.11	–0.94
	08/27	6.375	106.6880	5.89	+0.04	–0.05	–0.01	–0.90
ECU	01/00	4.000	99.5000	4.27	–	–0.04	–0.35	+0.22
	04/07	5.500	102.3400	5.17	+0.01	–0.03	–0.29	–0.88

London closing. *New York mid-day. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Feb 2	Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.91	+0.84	–0.36
Austria	5.16	–0.09	–0.39
Belgium	5.13	+0.06	–0.42
Canada	5.39	–0.32	–0.16
Denmark	5.43	+0.36	–0.12
Finland	5.08	–0.01	–0.47
France	5.07	–	–0.48
Germany	5.07	–	–0.48
Ireland	5.33	+0.26	–0.22
Italy	5.42	+0.35	–0.13
Japan	1.86	–3.21	–3.69
Netherlands	5.03	–0.04	–0.52
New Zealand	6.75	+1.68	–1.20
Norway	5.28	+0.21	–0.27
Portugal	5.34	+0.27	–0.21
Spain	5.31	+0.24	–0.24
Sweden	5.60	+0.53	+0.05
Switzerland	2.91	–2.16	–2.64
UK	6.08	+1.01	+0.53
US	5.55	+0.48	–
ECU	5.17	+0.10	–0.38

London closing. *New York closing. Source: Interactive Data/FT Information. Annualised yield basis.

EMERGING MARKET BONDS

Feb 2	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB-	94.5000	8.63	–0.07	+0.08	+3.25
Poland	07/04	7.125	BBB-	102.6250	6.61	+0.01	–0.27	+1.17
Russia	06/07	10.000	BB-	89.7000	11.84	–0.21	+0.56	+6.31
LATIN AMERICA								
Argentina	09/27	9.750	BB	89.3000	8.61	–0.15	–0.38	+3.97
Brazil	05/27	10.125	BB-	94.9500	10.69	–0.11	–0.11	+4.85
Mexico	05/26	11.500	BB	122.0000	9.27	–0.08	–0.26	+3.44
ASIA								
China	07/06	7.750	BBB+	103.9500	7.10	–0.01	–0.06	+1.60
Philippines	10/16	8.750	BB+	87.2000	10.30	+0.11	–0.59	+4.63
Thailand	04/07	7.750	BBB-	84.8000	10.44	+0.22	–0.08	+4.91
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	102.5500	7.91	+0.13	+0.32	+2.57
South Africa	10/06	8.375	BB+	98.7654	8.57	+0.02	–0.36	+3.07
Turkey	06/07	10.000	B	100.6500	9.82	+0.01	–0.06	+4.29
BRADY BONDS								
Argentina	03/23	5.500	BB	75.3800	8.32	–0.03	–0.17	+2.54
Brazil	04/14	4.500	BB-	79.1500	9.91	–0.20	–	+4.27
Mexico	12/19	6.250	BB	84.6800	7.69	–	–0.15	+1.97
Venezuela	03/20	6.750	B+	86.6300	8.05	–0.04	+0.07	+2.31

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	103.02	103.02	–	103.04	102.80	98,944	137,031
Jun	102.32	102.34	–	102.32	102.32	2,604	4,289
Sep	102.12	102.10	–	102.12	102.12	2	–

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jan	Calls Feb	Calls Mar	Puts Jan	Puts Feb	Puts Mar
97	5.62	5.62	4.95	-	0.01	0.07
98	4.62	4.62	4.04	-	0.02	0.14
99	3.62	3.64	3.18	-	0.03	0.28
100	2.62	2.66	2.41	-	0.07	0.49
101	1.63	1.78	1.75	0.01	0.17	0.82

Est. vol. total, Calls 12,233 Puts 19,245. Previous day's open int., Calls 98,878 Puts 185,884.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	106.67	106.43	-0.08	106.68	106.39	111813	255286
Jun	105.97	105.85	-0.08	106.08	105.83	928	8473

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Mar	Calls Apr	Calls May	Calls Jun	Puts Mar	Puts Apr	Puts May	Puts Jun
10600	0.70	0.67	0.88	1.06	0.27	0.82	1.03	1.20
10650	0.41	0.48	0.65	0.81	0.48	1.10	1.30	1.48
10700	0.20	0.29	0.47	0.62	0.77	1.44	1.62	1.77

Est. vol. total, Calls 17426 Puts 12516. Previous day's open int., Calls 231017 Puts 246833

■ NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	105.19	105.20	–0.05	105.32	105.17	76,073	245,034
Jul	104.89	104.92	+0.05	104.92	104.89	1,050	5,357

■ NOTIONAL GERMAN BOBL FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	105.31	105.19	-0.07	105.31	105.24	1,508	21,517
Jun	-	104.81	-0.06	-	-	-	220

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	117.45	117.27	-0.14	117.57	117.24	36716	119716
Jun	116.90	116.82	-0.11	117.00	116.90	1601	22638

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Mar	Calls Jun	Puts Mar	Puts Jun
11700	0.63	1.17	0.36	1.35
11750	0.38	0.92	0.59	1.60
11800	0.18	0.70	0.91	1.88

Est. vol. total, Calls 856 Puts 627. Previous day's open int., Calls 72358 Puts 82316

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	107.72	107.51	-0.11	107.89	107.60	51,525	107,516

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	123-13	123-04	-0-12	123-18	123-02	35552	167456
Jun		107-01	-0-12			0	10264

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Mar	Calls Apr	Calls May	Calls Jun	Puts Mar	Puts Apr	Puts May
123	0-47	0	0	0-39	15-62	15-62	15-62
124	0-22	0	0	1-14	16-62	16-62	16-62
125	0-10	0	0	2-02	17-62	17-62	17-62

Est. vol. total, Calls 906 Puts 255. Previous day's open int., Calls 68181 Puts 36609

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	102.36	102.34	-0.02	102.42	102.24	151	5,730

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	122-10	121-29	-0-13	122-12	121-26	486,263	563,911
Jun	121-24	121-17	-0-13	121-25	121-17	26,732	51,762
Sep	121-13	121-08	-0-11	121-13	121-08	8,418	10,915

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	128.57			128.62	128.48	1833	n/a
Jun	127.92			127.92	127.92	1	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

US CORPORATE BONDS

Feb 2	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA–	105.1767	5.89	–0.05	–0.27	+0.49
NY Tel	08/25	7.00	A+	100.4546	6.96	–0.03	–0.11	+1.16
CWE	05/08	8.00	BBB	110.6862	6.55	–0.06	–0.18	+1.04
FINANCIALS								
GECC	05/07	8.75	AAA	118.7660	6.07	–0.07	–0.24	+0.56
Banc One	08/02	7.25	A+	106.2704	5.69	–0.05	–0.33	+0.49
US West	01/07	7.30	BBB+	105.0813	6.53	–0.07	–0.21	+1.02
INDUSTRIALS								
WMX Tech	04/99	6.25	A–	100.1477	6.10	+0.01	–0.25	+6.10
Wal Mart	05/02	6.75	AA	103.5688	5.79	–0.06	–0.33	+0.39
Dayton Hud	06/21	8.70	BBB+	132.2225	6.86	–0.09	–0.15	+1.06
AGENCIES								
FHLMC	04/07	7.14	N/A	109.1262	5.84	–0.06	–0.23	+0.33
SLMA	03/00	7.50	N/A	103.8766	5.51	–0.04	–0.32	+0.17
FNMA	02/18	8.95	N/A	132.2715	6.13	–0.04	–0.20	+0.33
FFCB	06/06	8.95	N/A	120.3906	5.82	–0.05	–0.23	+0.31
HIGH YIELD								
Stone Cont	02/01	9.88	B	101.7500	0.00	–	–	–
AK St	12/01	9.13	BB–	106.5000	0.00	–	–	–
Pacalta	06/04	10.75	B–	99.0000	0.00	–	–	–

New York closing. Source: Interactive Data/FT Information.
Standard & Poor's ratings. Yields: semi-annual basis.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	5.34
Prime rate	8½	Two month	-	Three year	5.35
Broker loan rate	7¼	Three month	5.19	Five year	5.39
Fed.funds	5⅜	Six month	5.25	10-year	5.54
Fed.funds at intervention	-	One year	5.22	30-year	5.83

INTERNATIONAL BONDS

Feb 2	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
EURO DM								
EIB	02/07	5.750	AAA	104.5300	5.11	+0.01	–0.26	+0.12
Spain	01/07	5.750	AA	103.8100	5.20	+0.04	–0.28	+0.21
Philip Morris	03/04	5.375	A	100.5000	5.20	+0.02	–0.30	+0.56
Finland FRN	09/02	3.620	AA	100.6666	4.01	+0.02	–0.33	–0.25
EURO FFR								
Austria	01/04	5.000	AAA	103.0400	4.60	+0.01	–0.26	+0.10
Abbey Nat	02/04	6.000	AA	105.6100	4.90	–	–0.28	+0.29
Cred Foncier	02/04	8.125	A	119.9200	5.20	–	–0.32	+0.59
SCIF FRN	12/01	3.750	AA–	99.8329	4.16	+0.01	–0.28	+0.03
EURO LIRA								
EIB	09/07	7.000	AAA	110.8500	5.45	+0.02	–0.11	+0.11
Abbey Nat	02/02	6.500	AA	106.0500	5.10	+0.02	–0.17	+0.17
Walt Disney	06/00	8.625	A	107.4500	5.19	+0.04	–0.08	+0.39
EIB FRN	03/01	5.625	AAA	100.1270	4.74	+0.02	–0.03	–0.12
EURO £								
EIB	12/07	7.625	AAA	109.0056	6.38	+0.05	–0.24	+0.25
Dresdner Bk	12/07	7.750	AA–	108.0359	6.59	+0.05	–0.22	+0.75
British Gas	08/00	7.625	A+	101.0787	7.06	+0.06	–0.27	+0.46
Abbey Nat FRN	02/02	7.650	AA	99.8596	6.25	+0.04	–0.29	–0.15
EURO $								
EIB	04/07	7.250	AAA	109.4000	5.89	–0.01	–0.17	+0.36
ABN Amro	08/07	7.125	AA–	105.1113	6.39	–0.01	–0.09	+0.86
Quebec	01/07	7.000	A+	104.8500	6.29	–0.02	–0.11	+0.76
Citicorp FRN	02/04	5.938	A+	99.5617	6.02	+0.02	+0.01	+0.58
EURO C$								
Bayer L-Bk	06/04	9.600	AAA	120.0342	5.72	–0.03	–0.31	+0.18
Toronto	06/04	8.500	AA+	114.8999	5.62	–0.03	–0.31	+0.08
Bell Canada	07/99	10.625	A+	106.8356	5.52	–0.03	–0.28	+0.89
Deutsche B FRN	09/02	5.675	AAA	101.3011	5.55	–0.05	+0.02	+0.08
EURO YEN								
World Bank	03/02	6.250	AAA	115.8500	1.29	+0.04	+0.17	+0.20
Spain	03/02	5.750	AA	117.7500	1.31	+0.01	+0.17	+0.22
Cred Foncier	06/02	4.750	A	112.7085	1.79	+0.02	+0.13	+0.70
Italy FRN	07/99	0.797	AA	100.3792	0.42	–0.03	+0.04	–0.04

London closing. Source: Interactive Data/FT Information
Standard & Poor's ratings. Yields: Local market standard/Annualised basis.

UK BONDS

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Mon Feb 2	Day's change %	Fri Jan 30	Accrued interest	xd adj. ytd
1 Up to 5 years (19)	120.51	-0.08	120.60	2.40	1.15
2 5-15 years (20)	160.61	-0.19	161.11	2.10	1.03
3 Over 15 years (5)	197.35	-0.20	197.79	2.96	0.00
4 Irredeemables (4)	243.44	0.06	243.29	2.45	1.07
5 All stocks (48)	153.63	-0.15	153.86	2.44	0.86
Index-linked					
6 Up to 5 years (2)	214.97	0.09	214.77	2.10	0.00
7 Over 5 years (10)	217.05	0.01	217.03	1.29	1.14
8 All stocks (12)	215.73	0.02	215.69	1.20	1.04

UK Indices

Yield	Low coupon Feb 2	Low coupon Jan 30	Low coupon Yr. ago	Medium coupon Feb 2	Medium coupon Jan 30	Medium coupon Yr. ago	High coupon Feb 2	High coupon Jan 30	High coupon Yr. ago
5 yrs	6.22	6.17	7.08	6.31	6.27	7.13	6.35	6.32	7.16
15 yrs	6.06	6.04	7.57	6.09	6.07	7.57	6.18	6.19	7.49
20 yrs	6.06	6.04	7.69	6.06	6.05	7.63	6.18	6.19	7.60
Irred.†	6.19	6.16	7.76						

Index-linked	Inflation 5% Feb 2	Inflation 5% Jan 30	Inflation 5% Yr. ago	Inflation 10% Feb 2	Inflation 10% Jan 30	Inflation 10% Yr. ago
Up to 5 yrs	2.89	2.92	3.13	2.15	2.17	2.44
Over 5 yrs	3.06	3.06	3.55	2.85	2.85	3.35

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Feb 2	Jan 30	Jan 29	Jan 28	Jan 27	Yr ago	High*	Low*
Govt. Secs. (UK)	103.02	103.12	102.92	102.71	103.23	95.05	103.92	93.31
Fixed interest	138.06	138.25	137.80	138.10	138.30	117.67	139.27	115.32

[illegible]

UK GILTS PRICES

Notes	Yield	Price £	+ or -	52 week High	52 week Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Other Fixed Interest

Notes	Int	Red	Price £	+ or -	52 week High	52 week Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CURRENCIES AND MONEY

Weight of numbers becalms the dollar

MARKETS REPORT

By Richard Adams

The US dollar traded sluggishly against the other major currencies on foreign exchange markets yesterday, thanks to a combination of political and economic uncertainty.

The dollar was little changed against the yen, the D-Mark and the pound during trading in Europe, as diplomatic activity over Iraq continued and the markets awaited interest rate decisions later this week in the UK and the US.

The Canadian dollar maintained most of its gains against its US counterpart, following the Bank of Canada's surprise interest rate increase.

In Asia, a wide-spread recovery in equity prices helped produce gains in several currencies there. The best performance came from the Thai baht.

The baht strengthened from Bt52.75 from the close of trading on Friday, to Bt50.95, along with gains by other regional currencies.

■ The US dollar seems to be carrying the weight of the world on its shoulders this week, leaving currency analysts "like deer caught in the headlights of on-coming traffic," according to Mike Wallace at MMS in London.

The possibility of military action against Iraq, the scandal involving President Bill Clinton, the meeting of the Federal Reserve's monetary policy committee starting today, and an important set of employment figures to be released on Friday all add to the uncertainty surrounding the dollar, when many analysts were still digesting last week's crop of economic data and speeches.

"There's so much on the table today, and so much information out last week," said Mr Wallace. "People are still trying to sort out what all the implications are."

Only profit-taking against the D-Mark, and the impact of the Bank of Canada's decision to raise interest rates, caused much movement in the US currency.

Paul Meggyesi, foreign exchange analyst at Deutsche Morgan Grenfell in London, points out that the US current account deficit looks set to rise, while output and interest rates in Germany are likely to go higher than in the US.

"I've been perplexed, to be honest, by how bullish the market remains towards the dollar," Mr Meggyesi said. "People still seem to believe that cyclical forces are stacked up in favour of the dollar."

■ Hikaru Matsunaga, Japan's new minister of finance, looks to be more conservative than his predecessor, Hiroshi Mitsuzuka.

Comments over the weekend, from senior officials of Japan's ruling Liberal Democratic Party, bolstered the yen by calling for additional economic stimulus measures. Hiromu Nonaka, the LDP's acting secretary-general, on Sunday proposed a further Y6,000bn supplementary budget for 1998 to help the economy.

But Mr Matsunaga sounded cautious about the proposal, saying the fiscal plans in the 1997 supplementary budget and the current 1998 budget were the best policies available.

The dollar dropped to an intraday low of Y126.18 in Tokyo, but drifted higher later in the day. In London, the yen stayed firm, and closed at Y126.76.

The D-Mark made a recovery against the yen in European trading hours, after the German unit had weakened to Y69.07 in Tokyo as analysts began to look at the impact of Asia's slowdown on Europe's exports.

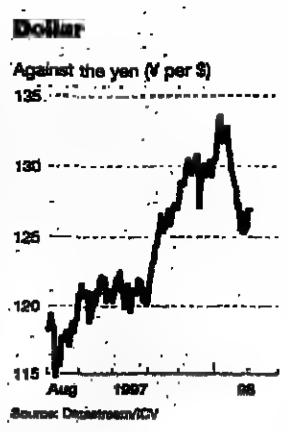
■ Asian currencies rallied strongly overnight, helped by soaring stock markets on the first day of business after the Chinese New Year holidays.

The liquidation of long dollar positions, after Thailand's removal of its two-tier foreign exchange system last week, helped the firmer sentiment. The Thai central bank, which ended the eight-month old two-tier market system on the baht, said it was satisfied with the currency's performance.

The former system separated baht trading into distinct onshore and offshore markets, with the aim of denying international investors access to baht supplies in Thailand.

The baht was subsequently floated, and lost more than 50 per cent of its value against the dollar.

Dollar



Source: Datastream/ICV

■ Pound in New York

Feb 2	—Latest—	— Prev. close —
£ spot	1.6365	1.6340
1 mth	1.6342	1.6317
3 mth	1.6291	1.6265
1 yr	1.6097	1.6073

■ OTHER CURRENCIES

Feb 2	£	$
Czech Rp	57.1128 - 57.2207	34.9100 - 34.9610
Hungary	339.601 - 339.828	207.580 - 207.630
Iran	4910.10 - 4920.20	3000.00 - 3000.00
Kuwait	0.4998 - 0.5003	0.3055 - 0.3057
Peru	4.5546 - 4.5631	2.7840 - 2.7880
Poland	5.7800 - 5.7906	3.5330 - 3.5380
Russia	9.8520 - 9.8578	6.0230 - 6.0230
U.A.E.	6.0085 - 6.0119	3.6727 - 3.6732

POUND SPOT FORWARD AGAINST THE POUND

Feb 2		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.9802	-0.0489	714 - 890	21.0675	20.9578	20.9173	3.6	20.7815	3.8	20.2995	3.2	102.3
Belgium	(BFr)	61.5431	-0.0965	972 - 890	61.7710	61.4810	61.3573	[illegible]	60.9542	3.8	59.4509	3.4	101.7
Denmark	(DKr)	11.3635	-0.0261	594 - 675	11.4103	11.3492	11.3318	3.4	11.2637	3.5	11.0145	3.1	104.1
Finland	(FM)	9.0286	-0.0216	217 - 354	9.0670	9.0170	9.0002	3.8	8.9406	3.9	8.7187	3.4	80.5
France	(FFr)	9.9921	-0.0174	881 - 960	10.0372	9.9839	9.9617	3.7	[illegible]	3.8	9.6559	3.4	105.0
Germany	(DM)	2.9819	-0.0069	808 - 829	2.9958	2.9775	2.9728	3.7	2.9539	3.8	2.8803	3.4	102.7
Greece	(Dr)	471.984	-1.499	810 - 319	474.576	471.387	474.769	-7.1	482.706	-8.1	509.069	-7.9	84.9
Ireland	(I£)	1.1861	-0.0056	872 - 890	1.1945	1.1871	1.1871	1.0	1.1838	1.4	1.1803	2.3	93.0
Italy	(L)	2942.81	-5.5	120 - 442	2953.74	2938.08	2940.3	1.0	2933.52	1.3	2885.3	2.0	75.1
Luxembourg	(LFr)	61.5431	-0.0965	972 - 890	61.7710	61.4810	61.3573	3.6	60.9542	[illegible]	59.4509	3.4	101.7
Netherlands	(Fl)	3.3607	-0.0072	596 - 618	3.3746	3.3581	3.3502	3.8	3.3277	3.9	3.2443	3.5	101.0
Norway	(NKr)	12.3417	-0.0485	387 - 446	12.4195	12.3284	12.3049	3.6	12.2307	3.6	11.979	2.9	97.0
Portugal	(Es)	305.147	-0.664	000 - 294	306.457	304.860	304.553	2.3	303.114	2.7	296.535	2.8	91.3
Spain	(Pta)	252.800	-0.617	680 - 919	254.070	252.620	252.303	2.4	251.111	2.7	245.65	2.8	76.4
Sweden	(SKr)	13.2129	-0.0437	060 - 198	13.2942	13.1982	13.1841	2.6	13.1238	2.7	12.9095	2.3	83.9
Switzerland	(SFr)	2.4161	+0.0034	147 - 174	2.4229	2.4130	2.4043	5.8	2.38	6.0	2.2637	6.5	107.7
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	104.6
Ecu	-	1.5120	-0.0023	113 - 127	1.5172	1.5102	1.5084	2.9	1.5006	3.0	1.4688	2.9	-
SDR†	-	1.217688	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6361	+0.0018	357 - 365	1.6370	1.6249	-	-	-	-	-	-	-
Brazil	(R$)	1.8377	+0.0014	372 - 382	1.8390	1.8256	-	-	-	-	-	-	-
Canada	(C$)	2.3777	-0.0123	766 - 786	2.3795	2.3610	2.3729	2.4	2.3632	2.4	2.3294	2.0	81.2
Mexico	(New Peso)	13.8125	-0.0196	013 - 236	14.1177	13.8463	13.9374	-10.9	14.1996	-11.2	15.4589	-12.0	-
USA	($)	1.6364	+0.0014	360 - 367	1.6368	1.6255	1.6341	1.7	1.629	1.8	1.6096	1.6	109.2
Pacific/Middle East/Africa													
Australia	(A$)	2.3873	+0.0016	855 - 890	2.4046	2.3734	2.3826	2.3	2.3729	2.4	2.3389	2.1	80.0
Hong Kong	(HK$)	12.6613	+0.0086	577 - 648	12.6688	12.5806	12.671	-0.9	12.7341	-2.3	13.2664	-4.8	-
India	(Rs)	63.6213	+0.1506	750 - 676	63.7090	62.8470	-	-	-	-	-	-	-
Israel	(Shk)	5.8891	-0.0174	839 - 763	5.8918	5.8610	-	-	-	-	-	-	-
Japan	(Y)	207.424	+0.106	298 - 550	207.740	205.890	206.309	6.5	203.664	6.9	194.234	6.4	122.8
Malaysia	(M$)	6.7340	-0.1021	248 - 432	6.9356	6.6681	6.725	1.4	6.732	0.1	7.0581	-4.8	-
New Zealand	(NZ$)	2.7686	-0.0265	663 - 708	2.7827	2.7486	2.7713	-1.2	2.7758	-1.0	2.7915	-0.8	102.8
Philippines	(Peso)	67.2541	-2.479	942 - 139	67.9459	66.7814	67.9528	-12.5	69.3816	-12.7	76.0285	-13.0	-
Saudi Arabia	(SR)	6.1374	+0.0052	358 - 389	6.1396	6.0969	6.1306	1.3	6.1153	1.4	6.0636	1.2	-
Singapore	(S$)	2.7968	-0.0115	927 - 988	2.8205	2.7800	2.7971	-0.6	2.8094	-1.1	2.8384	-1.5	-
South Africa	(R)	8.0690	-0.004	635 - 722	8.0725	8.0324	8.1155	-7.1	8.2122	-7.1	8.6055	-6.7	-
South Korea	(Won)	2546.16	+54.42	562 - 671	2578.93	2481.40	-	-	-	-	-	-	-
Taiwan	(T$)	54.5715	-1.097	279 - 150	55.1697	54.2413	54.5116	1.3	54.3768	1.4	53.8571	1.3	-
Thailand	(Bt)	83.3721	-2.874	482 - 960	85.4700	82.6090	83.7842	-5.9	84.5816	-5.8	89.2471	-7.0	-

† Rates for Jan 29. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. The exchange rates printed in this table are also available on the internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Feb 2		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J P Morgan index
Europe													
Austria	(Sch)	12.8214	-0.0404	187 - 240	12.8250	12.8170	12.8015	1.9	12.7579	2.0	12.6134	1.6	102.0
Belgium	(BFr)	37.6100	-0.09	900 - 300	37.9000	37.5640	37.55	1.9	37.42	2.0	36.9375	1.8	101.7
Denmark	(DKr)	6.9444	-0.0217	434 - 454	7.0003	6.9417	6.9348	1.7	6.9148	1.7	6.8434	1.5	103.4
Finland	(FM)	5.5175	-0.0178	145 - 205	5.5620	5.5141	5.508	2.1	5.4885	2.1	5.417	1.8	79.9
France	(FFr)	6.1063	-0.0157	052 - 074	6.1562	6.1050	6.0964	1.9	6.0761	2.0	5.9981	1.8	104.4
Germany	(DM)	1.8223	-0.0057	220 - 225	1.8373	1.8218	1.8193	2.0	1.8131	2.0	1.7896	1.8	102.2
Greece	(Dr)	288.425	-1.155	270 - 580	291.130	288.260	290.35	-8.8	[illegible]	-11.0	316.39	-9.7	84.8
Ireland	(I£)	1.3773	+0.0075	765 - 780	1.3790	1.3626	1.3763	0.8	1.376	0.4	1.3872	-0.7	-
Italy	(L)	1798.40	-4.85	780 - 900	1812.50	1797.30	1799.44	-0.7	1800.9	-0.6	1792.88	0.3	74.9
Luxembourg	(LFr)	37.6100	-0.09	900 - 300	37.9000	37.5640	37.55	1.9	37.42	2.0	36.9375	1.8	101.7
Netherlands	(Fl)	2.0538	-0.0051	535 - 540	2.0708	2.0530	2.0503	2.0	2.0429	2.1	2.0157	1.9	100.9
Norway	(NKr)	7.5422	-0.0359	420 - 424	7.6085	7.5375	7.5305	1.9	7.5084	1.8	7.4427	1.3	95.9
Portugal	(Es)	186.480	-0.56	430 - 530	188.020	186.360	186.385	0.6	186.082	0.9	184.24	1.2	91.8
Spain	(Pta)	154.490	-0.505	450 - 530	155.830	154.380	154.407	0.6	154.157	0.9	152.625	1.2	76.0
Sweden	(SKr)	8.0746	-0.0334	721 - 771	8.1487	8.0711	8.0686	0.9	8.0568	0.9	8.0208	0.7	83.4
Switzerland	(SFr)	1.4765	+0.0039	760 - 770	1.4870	1.4750	1.4714	4.1	1.461	4.2	1.4189	3.9	107.7
UK	(£)	1.6364	+0.0014	360 - 367	1.6368	1.6255	1.6341	1.7	1.629	1.8	1.6096	1.6	104.5
Ecu	-	1.0823	+0.0025	820 - 825	1.0826	1.0743	1.0834	-1.2	1.0857	-1.2	1.0959	-1.3	-
SDR†	-	0.74330	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	+0.0003	998 - 999	0.9999	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.1231	-	230 - 231	1.1233	1.1228	-	-	-	-	-	-	-
Canada	(C$)	1.4531	-0.0087	528 - 533	1.4536	1.4488	1.4523	0.7	1.4508	0.6	1.4474	0.4	81.2
Mexico	(New Peso)	8.4410	-0.019	360 - 460	8.4490	8.4330	8.5295	-12.6	8.7165	-13.1	9.611	-13.9	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	110.4
Pacific/Middle East/Africa													
Australia	(A$)	1.4589	-0.0002	582 - 596	1.4738	1.4543	1.4581	0.7	1.4565	0.9	1.4448	1.0	90.1
Hong Kong	(HK$)	7.7375	-0.001	370 - 380	7.7390	7.7340	7.7545	-2.6	7.8175	-4.1	8.2425	-6.5	-
India	(Rs)	38.8800	+0.08	600 - 000	38.9200	38.4500	-	-	-	-	-	-	-
Israel	(Shk)	3.5987	-0.0138	807 - 007	3.6040	3.5822	-	-	-	-	-	-	-
Japan	(Y)	126.760	-0.04	710 - 810	126.960	126.180	126.26	4.7	125.155	5.1	120.68	4.8	123.9
Malaysia	(M$)	4.1153	-0.0668	105 - 300	4.2500	4.0811	4.1163	-0.3	4.1328	-1.7	4.3853	-6.6	-
New Zealand	(NZ$)	1.6919	-0.0176	905 - 929	1.7056	1.6852	1.695	-2.2	1.7004	-2.0	1.7192	-1.6	-
Philippines	(Peso)	41.1000	-1.65	500 - 500	41.8000	40.8000	41.588	-14.2	42.5935	-14.5	47.237	-14.9	-
Saudi Arabia	(SR)	3.7507	+0.0001	505 - 508	3.7515	3.7502	3.7519	-0.4	3.7543	-0.4	3.7675	-0.4	-
Singapore	(S$)	1.7085	-0.0085	070 - 100	1.7298	1.7025	1.7117	-2.3	1.721	-2.9	1.7635	-3.2	-
South Africa	(R)	4.9305	-0.0005	290 - 320	4.9400	4.9270	4.9667	-8.8	5.0415	-9.0	5.3468	-8.4	-
South Korea	(Won)	1556.00	+32	600 - 500	1581.00	1555.00	-	-	-	-	-	-	-
Taiwan	(T$)	33.3495	-0.6665	300 - 690	33.8300	33.3000	33.3605	-0.4	33.392	-0.4	33.462	-0.3	-
Thailand	(Bt)	50.9500	-1.8	000 - 000	55.1000	50.8000	51.275	-7.7	51.925	-7.7	55.45	-8.8	-

† SDR rate per $ for Jan 29. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jan 29: Base average 1990=100. Bid, offer, mid spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T. The exchange rates printed in this table are also available on the internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

February 2	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.75	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.60	-	3.30
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.30
Ireland	[illegible]	[illegible]	6	[illegible]	[illegible]	-	-	6.75
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.00	5.50	6.23
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	4	-	2.75	3.30
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	5.33	5.37	5.40	5.42	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

The FT intends to replace the Libor FT London interbank fixing rate with the BBA London rate on 20/2/98. Any comments should be sent to Martin Dickson, Financial Editor, at the FT. Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Feb 2	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
German Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	4 - [illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible] - 1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canadian Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	7 - 6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japanese Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	1 - [illegible]	4 - 2	[illegible] - 7	[illegible]	10 - 8	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.37	96.37	-0.04	96.38	96.37	1,308	75,576
Jun	96.24	96.24	-0.10	96.24	96.23	1,982	50,659
Sep	96.12	96.13	-	96.12	96.11	1,175	30,072

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.405	96.400	-	96.410	96.400	23874	379311
Jun	96.260	96.240	-0.020	96.275	96.240	40777	[illegible]
Sep	96.140	96.120	-0.020	96.155	96.120	28402	258192
Dec	96.000	95.970	-0.030	96.010	95.970	27660	255090

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Feb 2		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.46	16.24	4.845	1.931	4782	5.461	20.05	495.8	410.8	21.47	3.926	1.625	3.864	2.659	337.0	2.457
Denmark	(DKr)	54.15	10	8.793	2.624	1.046	2590	2.958	10.86	268.5	222.5	11.63	2.126	0.880	2.092	1.440	182.5	1.331
France	(FFr)	61.58	11.37	10	2.984	1.189	2945	3.363	12.35	305.4	253.0	13.22	2.418	1.001	2.380	1.638	207.6	1.513
Germany	(DM)	20.64	3.811	3.351	1	0.398	986.9	1.127	4.139	102.3	84.78	4.431	0.810	0.335	0.797	0.549	69.56	0.507
Ireland	(I£)	51.80	9.565	8.410	2.510	1	2477	2.829	10.39	256.8	212.8	11.12	2.034	0.842	2.001	1.377	174.6	1.273
Italy	(L)	2.091	0.386	0.340	0.101	0.040	100	0.114	0.419	10.37	8.590	0.449	0.082	0.034	0.081	0.056	7.048	0.051
Netherlands	(Fl)	18.31	3.381	2.973	0.887	0.354	875.6	1	3.672	90.80	75.22	3.932	0.719	0.298	0.708	0.487	61.72	0.450
Norway	(NKr)	49.87	9.207	8.096	2.416	0.963	2384	2.723	10	247.2	204.8	10.71	1.958	0.810	1.927	1.326	168.1	1.225
Portugal	(Es)	20.17	3.724	3.275	0.977	0.389	964.4	1.101	4.045	100	82.85	4.330	0.792	0.328	0.779	0.536	67.98	0.495
Spain	(Pta)	24.34	4.495	3.953	1.180	0.470	1164	1.329	4.882	120.7	100	5.227	0.956	0.396	0.941	0.647	82.05	0.598
Sweden	(SKr)	46.58	8.600	7.562	2.257	0.899	2227	2.544	9.341	230.9	191.3	10	1.829	0.757	1.800	1.238	157.0	1.144
Switzerland	(SFr)	25.47	4.703	4.136	1.234	0.492	1218	1.391	5.108	126.3	104.6	5.469	1	0.414	0.984	0.677	85.85	0.626
UK	(£)	61.55	11.36	9.992	2.982	1.188	2943	3.361	12.34	305.2	252.8	13.21	2.416	1	2.378	1.636	207.4	1.512
Canada	(C$)	25.88	4.779	4.202	1.254	0.500	1238	1.413	5.190	128.3	106.3	5.557	1.016	0.421	1	0.688	87.23	0.636
USA	($)	37.61	6.944	6.106	1.822	0.726	1798	2.054	7.542	186.5	154.5	8.075	1.477	0.611	1.453	1	126.8	0.924
Japan	(Y)	29.67	5.478	4.817	1.438	0.573	1419	1.620	5.950	147.1	121.9	6.370	1.165	0.482	1.146	0.789	100	0.729
Ecu	-	40.71	7.516	6.609	1.972	0.786	1946	2.223	8.163	201.8	167.2	8.739	1.598	0.661	1.573	1.082	137.2	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.5474	0.5486	+0.0007	0.5487	0.5454	26,305	90,175
Jun	0.5499	0.5499	-0.0007	0.5510	0.5499	73	8,473
Sep	-	0.5530	-	-	-	1	1,647

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.7944	0.7939	+0.0024	0.7975	0.7921	32,206	96,631
Jun	0.8052	0.8034	+0.0019	0.8053	0.8052	204	2,750
Sep	-	0.8114	-	-	-	15	523

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

■ STERLING FUTURES (IMM) £62,500 per £

UK INTEREST RATES

LONDON MONEY RATES

BASE LENDING RATES

COMMODITIES AND AGRICULTURE

Threat of action on Iraq limits slide in oil

MARKETS REPORT

By Gary Mead and Kenneth Gooding

Contradictory signals over Iraq kept crude oil traders on their toes yesterday. The proposal on Sunday by Kofi Annan, United Nations secretary general, that Iraq should be allowed to increase the value of its six-monthly oil exports from $2bn to $5.2bn, had a bearish impact on prices.

Brent blend for March on the International Petroleum Exchange opened 1 cent lower at $15.95 a barrel and slipped to $15.71 in later trading.

If the new deal is agreed – and the US ambassador to the UN gave it official backing yesterday – the additional Iraq exports would add to the glut on world crude oil markets.

But specialists felt yesterday's slide would have been even greater without the growing threat of US-led military action against Iraq, to force President *Saddam Hussein to cease banning* UN weapons inspection teams.

Soft commodity futures on the London International Financial Futures Exchange were weak. March cocoa closed unchanged at £1,031 a tonne, while March coffee ended $23 down at $1,735 a tonne.

However, a report from Colombia that it expects to lose more than 20 per cent of its 1997-98 arabica harvest because of drought helped boost coffee on the Coffee, Sugar and Cocoa Exchange in New York. By midday, the March contract was 3.55 *cents higher at 178.25 cents a* pound.

Jorge Cardenas, head of Colombia's Coffee Growers' Federation, said he expected a crop of 10.7m 60kg bags against the earlier forecast of 12m bags.

On the London Metal Exchange lead, a metal used mainly for batteries, rose by nearly 2 per cent at one stage to $537 a tonne. It then retreated to close at $530, up $3 a tonne from Friday's close.

Billiton Metals, in its weekly report, suggested there was still potential for the physical lead *market to tighten in the short* term.

"Reported stocks are still uncomfortably low at just above four weeks' worth of consumption. Any marked deterioration in the weather would – even allowing *for the high level of US* battery stocks – result in a surge in demand that would in turn draw stocks to critically low levels and move prices sharply higher.

"In short, the market may have a window of opportunity in which it could enjoy the benefits of a period of higher prices, although *it is one that will not remain open* for very much longer."

Aluminium closed $8 a tonne higher at $1,540. However, the GNI brokerage, in its monthly report, suggested the outlook was bearish because of the threat of *destocking* in Asia and the fact that most of the surplus metal would be transferred to LME warehouses. GNI said aluminium might fall to $1,350 a tonne during the first quarter.

The brokerage is predicting a supply surplus of 400,000 tonnes this year, although most of this would be caused by *invisible* consumer stock movements.

Coffee futures exchange for India

By Kunal Bose in Calcutta

India's domestic coffee futures exchange is set to begin trading by the end of this month. The new exchange, the Coffee *Futures Exchange of India* (CFEI), is located in the southern city of Bangalore and initially will have capital of Rs20m ($513,000).

The exchange is planning four kinds of membership – ordinary, trading, trading/clearing and institutional clearing. Since India's domestic consumption of coffee is low, the market depends on exports. Vijay *Dudeja, chairman* of Paramount Marketing, a broking house, said the exchange's hedging facilities would attract exporters.

The exchange will start with nearly 50 members, and the CFEI is putting in place infrastructure to handle "a large volume of daily trading".

The beginning of domestic coffee futures trading will coincide with the peak market arrival of 1997-98 season coffee. The crop, which was earlier estimated at a bumper *240,000 tonnes, has been* damaged by unseasonal rain in November and December and berry borer and stem borer diseases in the southern state of Karnataka.

According to the Coffee Board, the current season's crop will be 228,000 tonnes, including 97,500 tonnes of arabica and 130,500 tonnes of robusta. India produced 205,000 tonnes of coffee last year.

However, growers contend the 1997-98 crop will be much lower than the revised estimate of the board. Reacting to the growers' complaint about the official crop monitoring system, the *board is thinking of* appointing an independent agency to estimate the crop in the future.

Farmer takes on traders over jump in silver price

Canadian investor accuses Phibro and others of manipulation, but the charge has been denied

The silver market has been awash with stories of manipulation for months. Now a lawsuit, filed in New York, has accused Phibro, the commodity trading arm of the Travelers financial group, and unnamed other parties, of shipping stocks out of official vaults and into undisclosed "black holes" to drive the price higher.

Phibro has rejected and *refuted the allegations. It* says it has not removed any silver from Commodity Exchange of New York warehouses, let alone shipped it overseas, in the past 18 months.

The person making the allegations is Kerry Seale, a Canadian who lives in Abbotsford, a farming community about 45 miles east of Vancouver.

Mr Seale has declined to discuss the action directly, but Christopher Lovell, his Manhattan-based lawyer, *says his client is simply* a farmer who sometimes trades commodities and who lost tens of thousands of dollars when *the silver price* surged last year.

Suggestions that Mr Seale has an ongoing "short" position, or is part of a bigger group trying to drive the silver price back down, are hotly denied.

"He's out of all positions. *He's a farmer who lost* money in the market. That's all he is," says Mr Lovell.

Mr Lovell needs less introduction. He hit the headlines about 15 years ago, when he won a lawsuit on behalf of a retired Detroit businessman who lost money in the potato futures scandal, which saw two big processors default on delivery. A New York jury awarded *$460,000 in damages*, which were automatically tripled under antitrust law.

Since then, Mr Lovell has successfully *represented* class action plaintiffs in a number of commodity-related scandals, such as the Ferruzzi soyabean debacle. Most recently, he was one of four co-lead counsels in the antitrust suit against securities dealers on the Nasdaq market, which was settled by 30 Wall Street firms for about $1bn late last year.

There is no denying that *there has been* a sharp run-down in visable silver stocks held in depositories registered with Comex, the *world's only silver futures* market.

According to the New York Mercantile Exchange, which runs the Comex silver market, stocks fell from 185m ounces in mid-year to 110m ounces by the end of December – the lowest level in 12 years.

It is also a fact that a large portion of the outflow came from warehouses owned by *Republic National Bank of* New York, part of the publicly quoted Republic holding company in which *financier Edmond Safra holds a* stake.

Republic stocks fell from 78m to 34m ounces in the second half of 1997, a 56 per cent reduction compared with 40 per cent for Comex stocks overall.

Silver's surge

Silver price, LBM (cents per troy ounce)

Source: Datastream/ICV

Also, according to US Treasury records, a good part of this silver – more than 60 per cent of US exports between May and October, a higher proportion than usual – went to London.

Republic declines to comment on the Seale suit, in which it is not named as a defendant. However, Patrick Thompson, chairman of Nymex, says there is no basis for allegations of manipulation. "In a period of demand overseas ... it would be extraordinary ... if stocks were not being withdrawn from exchange-registered silver depositories," he adds.

Mr Lovell is not surprised by the Nymex statement. "They are a great institution, but they are not *infallible* ... The rational manipulator may be a step ahead of the exchange."

The crux of Nymex's argument is that a higher London spot price attracted the silver. But, says Mr Lovell: "There are some pretty smart people who don't take a few cents as an infallible proxy for demand. It could be that [industrial users] have been consuming Comex silver – then our complaint is wrong. But for now, we have good grounds ... to *allege hoarding.*"

Where this is alleged to have occurred is left vague, but J.P. Morgan and Credit Suisse depositories in *London* are cited as destinations.

Martin Armstrong, a fund manager and a director of the Princeton Economic *Institute advisory group*, suggests: "The only way these manipulations can be prevented is for London and Zurich to disclose fully all inventories on a daily basis, as is the case in New York."

Peter Fava, chairman of the London Bullion Market Association, points out that silver is not very valuable and is stored in 30kg bars that are not easy to hide. So any conventional warehouse with three or four security staff is secure enough. "You could hide a large amount this way."

Mr Fava insists no LBMA *member has done wrong.* The Bank of England, which is ultimately responsible for supervision of the London silver market, says it is taking an interest because of the various rumours and reports, while the US Commodity Futures Trade Commission has intensified its surveillance of the market.

Meanwhile, Mr Armstrong points out: "A silver squeeze has been attempted many times in the past and each and every time it has ended in sheer disaster."

Nikki Tait and Kenneth Gooding

Collapse in demand from India

Demand for silver in India, the biggest market for the metal, has collapsed because of the high price in the local currency, writes Kenneth Gooding. India absorbs about 4,000 tonnes of silver a year, about 17 per cent of western world fabrication demand.

"Dealers report that there has been virtually no demand *over the past four to six weeks," said Kamal Naqvi, analyst* at Macquarie Equities, part of the Australian banking group.

"Indian silver demand is not expected to pick up until the local price falls below Rs7,500 a kilo [roughly $5.30 a troy ounce plus the local premium]," Mr Naqvi said.

The Indian price is at present about Rs8,500 a kilo or $6 plus the premium. In London yesterday, silver prices were volatile again and closed at $6.31 an ounce, up 14 cents from Friday's close in London.

Mr Naqvi said the situation in India implies that prices of $6 "are going to be increasingly difficult to maintain in the context of a slump in physical silver demand and increased supply. We expect silver to fall towards $5 an ounce in the second half of this year."

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1517-8	1536-7
Previous	1513.5-14.5	1534-35
High/low		1540/1520
AM Official	1508.5-7.0	1526-26.5
Kerb close		1539-40
Open int.	254,581	
Total daily turnover	58,163	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1332-7	1385-7
Previous	1325-35	1350-55
High/low		1466/1450
AM Official	1330-30.5	1354-55
Kerb close		1455-8
Open int.	5,503	
Total daily turnover	2,189	

■ LEAD ($ per tonne)

Close	522.5-3.5	532.5-3.0
Previous	519-20	528.5-29.0
High/low		537/529
AM Official	524-24.5	535-37
Kerb close		529-30
Open int.	32,707	
Total daily turnover	13,306	

■ NICKEL ($ per tonne)

Close	5445-55	5530-40
Previous	5310-20	5400-405
High/low		5550/5400
AM Official	5420-25	5495-500
Kerb close		5520-25
Open int.	58,631	
Total daily turnover.	23,192	

■ TIN ($ per tonne)

Close	5170-80	5210-15
Previous	5170-80	5210-15
High/low		5215/5160
AM Official	5140-45	5190-95
Kerb close		5215-20
Open int.	12,658	
Total daily turnover	4,111	

■ ZINC, special high grade ($ per tonne)

Close	1090.5-7.5	1121-2
Previous	1109-10	1133-34
High/low		1141/1114
AM Official	1101.5-2.0	1126-27
Kerb close		1117-8
Open int.	71,767	
Total daily turnover	27,248	

■ COPPER, grade A ($ per tonne)

Close	1737.5-8.0	1764-4.5
Previous	1730.5-31.5	1757-58
High/low		1770-1754
AM Official	1733.5-34.5	1760-61
Kerb close		1764-5
Open int.	150,233	
Total daily turnover	39,411	

■ LME AM Official £/$ rate: 1.6305
LME Closing £/$ rate: 1.6370

Spot: 1.6385 3 mths: 1.6314 6 mths: 1.6231 9 mths: 1.6169

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	78.60	-0.15	79.40	78.40	397	2,482
Mar	78.85	-0.45	80.20	78.20	8,051	32,414
Apr	79.35	-0.35	80.50	79.50	94	1,824
May	79.70	-0.45	80.90	78.75	781	7,450
Jun	80.00	-0.40	81.20	80.00	25	1,873
Jul	80.35	-0.40	81.50	80.50	416	5,102
Total						

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	302.30-302.60		
Opening	303.00-303.40		
Morning fix	302.00	185.333	448.077
Afternoon fix	301.50	184.280	445.466
Day's High	303.50-303.80		
Day's Low	301.00-301.50		
Previous close	302.80-303.30		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month ....3.84 6 months 3.64
2 months ....3.82 12 months 3.52
3 months 3.77

Silver Fix	p/troy oz.	US cts equiv.
Spot	382.65	625.00
3 months	380.00	617.95
6 months	378.30	612.45
1 year	379.05	609.15

Gold Coins	$ price	£ equiv.
Krugerrand	302.00-305.00	184.5-186.5
Maple Leaf	-	-
New Sovereign	69.00-71.00	42.00-43.00

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	303.4	+0.5	304.2	301.8	3,821	3,083
Mar	304.0	+0.4	299.0	299.0	4	9
Apr	305.0	+0.4	306.0	303.2	37,581	72,944
Jun	307.0	+0.5	307.9	305.1	1,084	14,277
Aug	[illegible]	[illegible]	[illegible]	307.6	23	5,407
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

[illegible]

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

[illegible]

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

[illegible]

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

[illegible]

■ CRUDE OIL IPE ($/barrel)

[illegible]

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

[illegible]

■ GAS OIL IPE ($/tonne)

[illegible]

■ NATURAL GAS IPE (10,000 therms; pence per therm)

[illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

[illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls)

[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	80.70	+0.08	80.60	80.20	54	2,317
May	82.70	+0.05	82.70	81.85	102	3,804
Jul	84.70	+0.85	-	-	-	598
Sep	80.75	+0.75	-	-	-	63
Nov	82.75	+0.75	-	-	-	1,492
Total					[illegible]	[illegible]

■ WHEAT CBT (5,000 bu min; cents/60lb bushel)

[illegible]

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

[illegible]

■ BARLEY LIFFE (100 tonnes; £ per tonne)

[illegible]

■ SOYABEANS CBT (5,000 bu min; cents/60lb bushel)

[illegible]

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

[illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton)

[illegible]

■ POTATOES LIFFE (20 tonnes; £ per tonne)

[illegible]

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

[illegible]

PULP AND PAPER

■ PULPEX OMLX (US$; 24 air dry tonne)

[illegible]

FUTURES DATA

All futures data supplied by CMS.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1031	-	1036	1027	874	52,382
May	1052	-1	1061	1040	1,162	24,071
Jul	1073	-1	1081	1070	173	13,780
Sep	1094	-1	1096	1091	424	23,401
Dec	1120	-	1129	1118	210	29,419
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ COCOA CSCE (10 tonnes; $/tonnes)

[illegible]

■ COCOA (ICCO) (SDR's/tonne)

[illegible]

■ COFFEE LIFFE (5 tonnes; $/tonne)

[illegible]

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

[illegible]

■ COFFEE (ICO) (US cents/pound)

[illegible]

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

[illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

[illegible]

■ COTTON NYCE (50,000lbs; cents/lbs)

[illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

[illegible]

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

[illegible]

■ CRB Futures (Base: 1967 = 100)

[illegible]

■ GSCI Spot (Base: 1970 = 100)

[illegible]

■ LME WAREHOUSE STOCKS (tonnes)

[illegible]

TEA from The Tea Brokers' Association

[illegible]

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	63.450	-1.150	64.325	63.350	4,655	27,382
Apr	66.400	-1.075	67.200	66.150	7,021	42,948
Jun	66.100	-0.550	66.400	67.700	1,895	24,273
Aug	69.150	-0.575	69.550	68.550	767	8,789
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ LEAN HOGS CME (40,000lbs; cents/lbs)

[illegible]

■ PORK BELLIES CME (40,000lbs; cents/lbs)

[illegible]

LONDON TRADED OPTIONS

Strike price $ tonne – Calls – – Puts –

■ ALUMINIUM (99.7%) LME

[illegible]

■ COPPER (Grade A) LME

[illegible]

■ COFFEE LIFFE

[illegible]

■ COCOA LIFFE

[illegible]

■ BRENT CRUDE IPE

[illegible]

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel) +or-

Dubai	$13.40-3.55x	-0.225
Brent Blend (dated)	$15.16-5.18	-0.345
Brent Blend (Mar)	$15.69-5.71	-0.225
W.T.I.	$16.95-6.98x	-0.175

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

[illegible]

■ NATURAL GAS (Pence/therm)

Bacton (Mar) 10.35-10.40

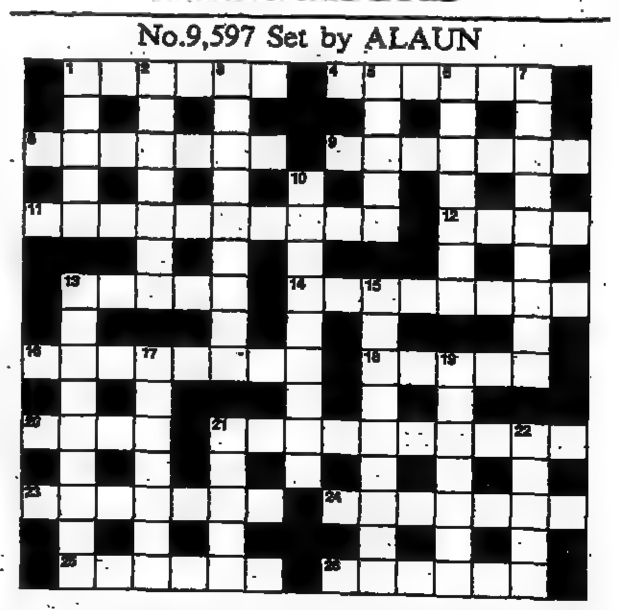
■ OTHER

[illegible]

JOTTER PAD

CROSSWORD

No.9,597 Set by ALAUN



ACROSS

1 Is one of the young producers (6)
4 Goes ahead and hands over (6)
8 I again quickly trapped the prettiest (7)
9 A real mess-up by the dope, as usual (7)
11 An attempt to intimidate that doesn't work? (4,6)
12 They're young and fools (4)
13 Put off having the dead tree felled (5)
14 Sort of ooze through the covering, not going in far (4-4)
16 A shade eager to cast into prison (3,5)
18 Indication that it's wrong to thwart people (5)
20 Not happy with the colour (4)
21 Is it the devil's own job earning them? (5,2,3)
23 Turned right to start with, it developed (7)
24 Dispute the increase, for instance (7)
25 Having got rid of the jerks from the bar (6)
26 Interrupting the test broadcast again, in a way (6)

DOWN

1 The mark of the beast (5)
2 If thou art gainfully employed, 'tis serious (7)
3 Either unload or fire (9)
5 Spy on a fellow (5)
6 Informed on for having stolen (7)
7 There are wardens patrolling on the street and course (2,7)
10 The senor written about in the paper – a VIP (9)
13 Pulled a gun to take aim and got even with (4,5)
15 Going on and on about an insect's development (9)
17 It's bird for the old convict! (7)
19 Crime of a receiver (7)
21 Get with difficulty out of a sound sleep (5)
22 Pile into it, not fitting (5)

Solution to Saturday's prize puzzle on Saturday February 14.
Solution to yesterday's prize puzzle on Monday February 16.

FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

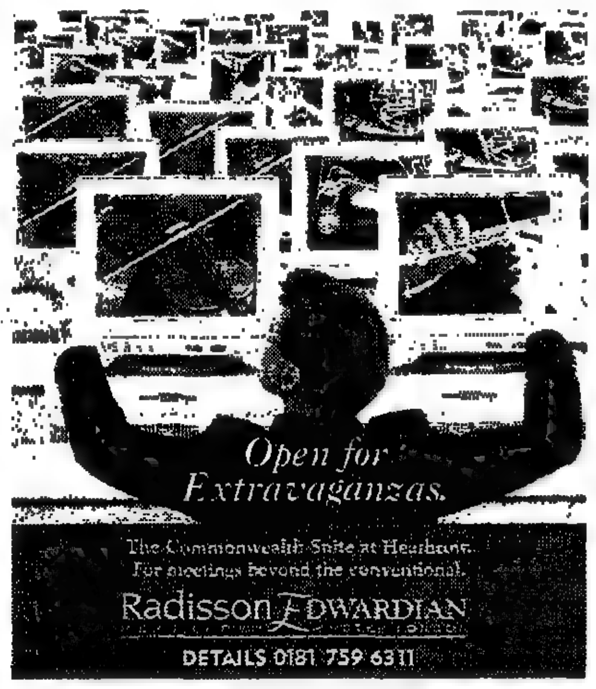
BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)



IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (REGULATED)(**)

JERSEY (FSA RECOGNISED)

LUXEMBOURG (FSA RECOGNISED)

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American Phoenix Investment Portfolios (u)
13 rue Goethe L-1637 Luxembourg 00 352 404646211

BAII Asset Management Ltd
10 Piccadilly, London W1V 0EE 0171 734 3700

	Selling Price	+or-	Yield
Intermarket NAV Jan 15 F	$879.42	+1.93	–

Bank Von Ernst & Cie AG
Marktgasse 63/65, 3001 Berne, Switzerland 0041 313291111

Banque Indosuez
39 Allee Scheffer, L-2520 Luxembourg 00352 47671

Barclays Diversified Portfolio (z)
50 avenue J.F. Kennedy L-2951 352 4799 2800

Barclays Inv Funds (Luxembourg)
28 Place de la Gare, L-1616 00 352 404344

CMI Asset Management (Luxembourg) SA
165 route d'Arlon L-8010 Strassen Lux 00 352 3178811

Foreign & Colonial Portfolios Fd Sicav(u)
47 Boulevard Royal L-2449 Lux 01534 504541

	Selling Price	+or-	Yield
Am Smlr Cos Eq F	$47.54	-0.03	–
Emerging Asian Eq F	$13.47	+1.83	–
Sterling Beta F	£10.07	–	–
Sterling Distribution F 5	£9.05	+0.02	–

Frontrunner I (u)
672 rue de Neudorf Luxembourg 00 352 43987350

GT Global
(44) 171 710 4567 London (852) 2842 7208 Hong Kong

HSBC Investment Funds Luxembourg SA (u)
7 rue du Marche-aux-Herbes L-1728 Luxembourg

Henderson Management SA (u)
60 rte de Treves, L-2633 Senningerberg, Lux

Morgan Stanley Sicav
C/O First European Transfer Agent S.A.
11 Boulevard Grand-Duchesse Charlotte
L-1331 Luxembourg (352) 254701 511

LUXEMBOURG (REGULATED)(**)

ACM Offshore Funds

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

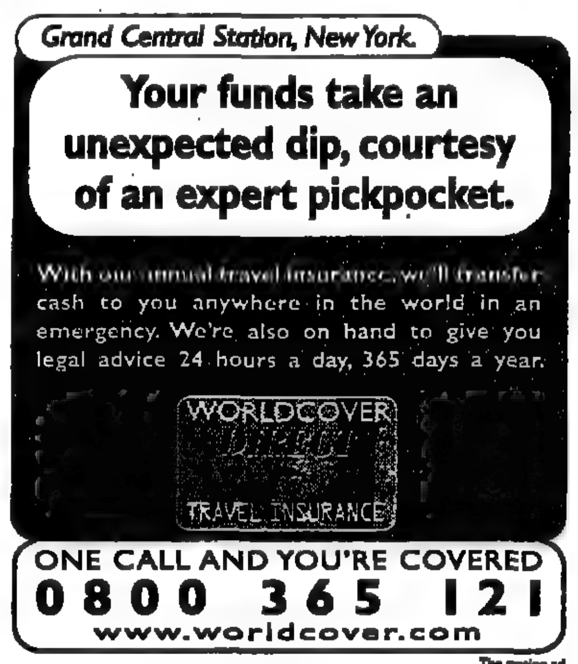
Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

	Selling Price	Buying Price	+ or -	Yield Gross
Old Mutual International (Isle of Man) Ltd				
Victory Hse, Prospect Hill, Douglas, IoM 01624 663083				
Distribution Fund-Deferred	74.14		-0.02	-
Distribution Fund-Quarterly	58.98		-0.04	5.44
Distribution Fund-Half Yearly	59.12		-0.04	5.84
European Equity	198.23	213.18	-0.61	-
Far Eastern Equity	$1.2572	1.3518	+0.0059	-
North American Equity	$1.8997	2.0071	+0.0097	-
UK Equity	230.19	247.21	-0.27	-
UK Gilt & Fixed Int	137.47	147.81		-
Dollar Deposit	$0.8042	0.8647	+0.0001	-
Sterling Deposit	115.58	124.27	+0.02	-
International Managed	155.46	167.16	-0.67	-
PanEuroLife societe anonyme				
7, Rue de la Chapelle L-1325 Lux 00 352 456730				
[illegible]				
Premier Life				
1 Rue Emile Bian, Luxembourg Tlx 2869 Tel 4050761				
[illegible]				
Professional Investment Consultants				
[illegible]				

	Selling Price	Buying Price	+ or -	Yield Gross
Aravis Capital Advisers LLC				
Aravis Copper Ltd	$141.79		-	-
Arc Investment Company Ltd				
Rainbow	$599.41		-	-
Rainbow	SFr600.49		-	-
Ardent Investment Management Limited				
The Alpha Unit Trust	$79.86		-	-
The Pegasus Fund Ltd	$11.17		-	-
Arisaig Partners (BVI) Ltd				
Arisaig Asian Small Companies Fund				
NAV Jan 27	$7.59		-	-
Aristocrat Capital Management Ltd				
Aristocrat Endeavor Fd	$22.76		-	-
Arnfield-Norman Investment Mgmt Inc				
Royce Hedge Fd Ltd	$398.5624		-	-
Arnhold and S. Bleichroeder, Inc				
[illegible]				
Asia Pacific Securities Corp Ltd				
[illegible]	$8.84		-	-
Asian Convertibles & Income Fd (Cayman)				
NAV Jan 2	$71.16		-	-
Atlantica Investment Ltd				
Atlantico Libra Plus Jan 2	$107.81		-	-
Atlantis Fund Management (Guernsey) Ltd				
[illegible]				
Atlas Management Limited				
Managed	$9.98	10.16	-	-
Aurora Funds				
[illegible]				

[illegible]



[illegible]

	Selling Price	Buying Price	+ or -	Yield Gross
The Russian Prosperity Fund				
A Shares	$18.75		-	-
B Shares	$17.38		-	-
Wharton Capital Investment Management Ltd				
[illegible]	$10.40		-	-
Worldwide Limited				
NAV Dec 31	$92.05		-	-
Xeryus Fund Management Ltd				
Xeryus Portfolio	$1000		-	-
Xiphias International Investment Fd Ltd				
Xiphias Global Growth	$12.58		-	-
Xiphias Intl ECU Acc	Ecu1.9198		-	-
Zanett Lombardier Ltd				
NAV Dec 31	$273.41		-	-
Zweig-DiMenna International Limited				
NAV Dec 31	$21682		-	-

■ MANAGED FUNDS NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % allow for all buying expenses.
Prices of certain older insurance linked plans subject to capital gains tax on sales.
FSA - Financial Services Authority.
(**) Funds not FSA recognised. The regulatory authorities for these funds are:
Bermuda - Bermuda Monetary Authority
Guernsey - Financial Services Commission
Ireland - Central Bank of Ireland/Irish Department of Enterprise and Employment
Isle of Man - Financial Supervision Commission
Jersey - Financial Services Department
Luxembourg - Institut Monetaire Luxembourgeois.
Initial charge - Charge made on sale of units.
Selling price - Bid or redemption price.
Buying price - Offer or issue price.
OEIC - Open Ended Investment Company.
Time - The time shown alongside the fund manager's name is the time of the fund's valuation point unless indicated by one of the following symbols:
(*) 0001 to 1100 hours
(‡) 1101 to 1400 hours
(†) 1401 to 1700 hours
(#) 1701 to midnight
E Exit charge on sale of units.
C Manager's periodic charge deducted from capital.
H Historic pricing F - Forward pricing
& Distribution free of UK taxes.
p Periodic premium insurance plans.
s Single premium insurance.
o Designated as a UCITS (Undertakings for Collective Investment in Transferable Securities).
• Offered price includes all expenses except agent's commission.
z Previous day's price
§§ Guernsey gross
◆ Yield before Jersey tax.
† Ex subdivision. xd - Ex-dividend.
‡ Only available to charitable bodies
◆ Yield column shows annualised rates of NAV increase.

The fund prices published in this edition are also available at the Financial Times' web site, http://www.FT.com

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or –	52 week high	low	Volume '000s	Yld Gr's	P/E
Allied Domecq	[illegible]	538½xd	–8½	599	407½	1,213	4.5	13.8
Bulmer (HP)	[illegible]	384xd	---	626	351½	–	5.2	11.0
Burn St Dist	[illegible]	31	+½	77½	29½	39	13.7	10.8
Diageo	[illegible]	552	–2	654½	430	4,798	3.3	14.6
Glenmorangie A	[illegible]	855	---	1040	835	–	2.0	27.0
B	[illegible]	937½	[illegible]	1140	925	–	0.9	44.8
Highland	[illegible]	280	–2	373½	280	79	4.0	13.0
5 ½pc Cnv Bds	[illegible]	91½	+½	98½	85½	–	6.5	–
Kirin Y	[illegible]	509¼	–¼	664¼	418¾	–	1.1	–
Matthew Clark	[illegible]	167xd	+1½	335	157	172	15.0	5.4
Merrydown	[illegible]	59	---	109½	49½	21	6.8	–
Seagram C$	[illegible]	£21⅛	+⅛	£25¼	£18⅛	–	1.3	–

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS & TEXT

HOUSEHOLD GOODS & TEXT - Cont.

INSURANCE

INVESTMENT TRUSTS

Approved by the Inland Revenue

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

Approved by the Inland Revenue

هكذا من الأصل

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

Notes	Price	+ or -	52 week high	low	Yld Gr's	NAV	Dis or Pm(-)
[illegible]							

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Cont.

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Cont.

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AIM (Alternative Investment Market), designed primarily for small companies, is regulated by the London Stock Exchange but has less demanding rules than the Official List.

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

TRADED INDEX SECURITIES

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
FTSE 100 TRANS		[illegible]	+2150	[illegible]	£472	0.008	-	-

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 Index constituents and reserves marked † in the Trading Volume table on the LSE page, last trade prices at or prior to 4:30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield, p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend. b Figures based on prospectus or other official estimates. g Assumed dividend yield after rights issue. h Assumed dividend yield after scrip issue. n Rights issue pending. q Earnings based on preliminary figures. s Dividend yield excludes a special payment. t Indicated dividend yield, p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings. z Dividend yield excludes a special payment. F Yield based on prospectus or other official estimates for 1998-99. G Assumed yield after pending scrip and/or rights issue. H Yield based on prospectus or other official estimates for 1997. K Yield based on prospectus or other official estimates for 1998. L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other official estimates for 1997-98. N Dividend is paid in whole or part as a FID (Foreign Income Dividend). R Forecast annualised yield, p/e based on prospectus or other official estimates. W Pro forma figures. Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xf ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1495 a year for each security shown, subject to the Editor's discretion.

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The share prices printed on these pages are also available on the Internet at http://www.FT.com.

LONDON STOCK EXCHANGE

Footsie achieves its fourth consecutive record

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

The news of the proposed merger between Glaxo Wellcome and SmithKline Beecham took London's equity market by storm, producing massive gains in both stocks and in the rest of the drugs sector and fuelling another move to record levels by the FTSE 100.

The blue chip index leapt past 5,600 to hit an intra-day record of 5,616.1, up 157.6, before easing off slightly to finish the session 140.5 higher at 5,599.0.

That performance was the Footsie's fourth consecutive closing record and its sixth successive rise.

Over those six sessions, the index has risen 417.6 points, or 8 per cent, as the UK market has responded to the build-up of takeover news, both actual and rumoured, culminating in the proposed deal between Glaxo and SmithKline – at £118bn, the world's biggest-ever merger.

But there were other positive forces at work in the equity market yesterday, notably the return of many of the Asian stock markets after the Chinese new year holiday.

The Hong Kong market, along with Tokyo the most important of the far eastern stock markets, kicked off its first trading session of the new year with a 14 per cent gain, while Tokyo nudged ahead and Thailand and Singapore both posted rises in excess of 12 per cent, adding to the feel-good factor sweeping European markets.

Also on the positive side, the day's domestic economic news, which included a subdued purchasing managers' survey, was seen as increasing the likelihood that the monetary policy committee, which meets on Wednesday and Thursday, will leave interest rates on hold for the time being.

As well as the UK meeting this week, global markets have to negotiate interest rate decisions in the US, where the Federal Reserve open market committee meets, and in Germany.

Although the pharmaceutical stocks held centre stage, there was more takeover activity among the small caps, which have attracted a spate of bids in recent weeks.

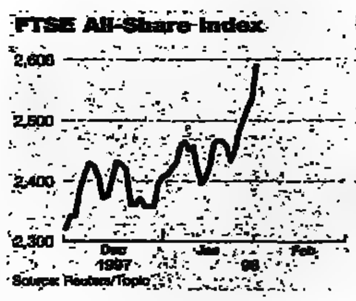
The market's second liners, represented by the FTSE 250, were left almost for dead by the leaders. The 250 index finished the day up only 16.9 at 4,878.4 and the FTSE SmallCap 12 firmer at 2,384.7; the latter is now only 22.7 points below its previous record close.

No less than three takeover stories were unveiled, involving Gibbs Mew, the pubs group, La Senza, the retailer, and Tele-Cine Cell, which provides special effects for film companies.

The expected opening surge on Wall Street helped London maintain its earlier progress. The Dow Jones Industrial Average rose 50 points not long after trading commenced and was 164 points ahead an hour after London closed, while the S&P 500 index broke through the 1,000 barrier for the first time.

Turnover in equities was 825m shares, but action in Glaxo Wellcome and SmithKline was predictably high, accounting for well over 10 per cent of the total.

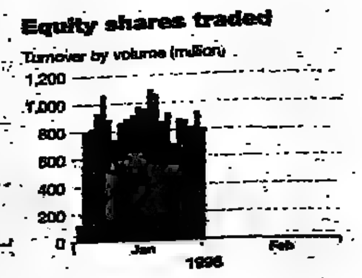
FTSE All-Share index



Source: Reuters/Topic

Equity shares traded

Turnover by volume (million)



Indices and ratios

FTSE 100	5599.0	+140.5
FTSE 250	4878.4	+16.9
FTSE 350	2659.4	+56.5
FTSE All-Share	2589.06	+52.38
FTSE All-Share yield	3.00	3.06
FT 30	3409.9	+51.3
FTSE Non-Fins p/e	21.16	20.76
FTSE100 Fut Mar	5616.5	+159.5
10 yr Gilt yield	6.15	6.12
Long gilt/equity yld ratio	2.06	2.02

Best performing sectors

1 Pharmaceuticals .... +14.0
2 Consumer Goods .... +7.9
3 Extractive Inds .... +3.0
4 Electronic & Elect Equip .... +2.5
5 Banks: Retail .... +2.5

Worst performing sectors

1 Property .... −1.4
2 Retailers: Food .... −1.2
3 Oil Exploration & Prod .... −1.1
4 Gas Distribution .... −1.0
5 Electricity .... −0.9

Market high on drugs

By Peter John, Martin Brice and Joel Kibazo

Plans for the world's biggest merger dominated trading in London.

The proposed tie-up between Glaxo Wellcome and SmithKline Beecham saw the two companies' share prices account for almost all of the early morning rise in the Footsie.

The two stocks eased in late trading, but still made up two-thirds of the day's overall gains in the blue chip index. They also dragged up Zeneca and Nycomed Amersham in their wake.

Selected banking and insurance stocks were strong as traders looked towards the most consistently favoured area of consolidation. But the market was only interested in the ramifications of a £100bn-plus merger.

Analysts had the whole weekend to digest the headlines and they stood up at the mike in morning meetings with changes of recommendation and valuations.

Merrill Lynch, for example moved from "accumulate" to "buy" on SmithKline and valued the stock at 940p a share. Much of the potential gain had already been factored into SmithKline's share price after it was seen to be in talks with American Home Products. Glaxo received the biggest push with Merrill valuing the stock at £21.25 a share and going from "neutral" to "buy".

Goldman Sachs said the deal would an "excellent strategic opportunity, create an unparalleled research and development opportunity and significantly increase shareholder value."

By the close, Glaxo had jumped 340 to £19.83 and SmithKline 65 to 845p. The 92m turnover of the two stocks represented more than 10 per cent of the day's total. Zeneca rose 235 to £26.85 and Nycomed 100 to £25.00.

No amount of bad news could staunch the enthusiasm for banks as institutional cash poured into the sector yesterday.

Analysts said the planned tie-up in pharmaceuticals was raising the prospect of a "national sector champion" which would spring from a spate of European consolidation rather than mere UK mergers.

Barclays, the high street bank which has just disposed of its BZW securities arm, hit a new high with a closing gain of 41 to £18.88 despite outlining the full extent of the hit it will take in the full-year figures.

It said the sale of parts of BZW and the associated restructuring will lead to a loss of £340m to the group, £150m higher than some estimates.

Barclays was one of several stocks to hit a new peak even though there was no specific speculation around. Elsewhere, and unrestrained by any negatives, Royal Bank of Scotland chalked up an impressive 7 per cent gain with a rise of 61 to 931p. And Lloyds TSB edged ever higher, adding 24 at 886p while Halifax nudged 900p before closing 8 better at 899p.

Rank boosted

Bargain hunters gained the upper hand in leisure group Rank Organisation helping the shares advance 12½ to 312p. The company, which reports full-year figures later this month, has underperformed the market by around 15 per cent since the begining of this year.

Yesterday's advance brushed aside concerns in some quarters about senior management changes at the group. Rank yesterday confirmed the departure of John Garrett as managing director of its leisure division.

Rank also said its Hard Rock Cafe International subsidiary and the National Basketball Association (NBA) had formed an alliance to create at least 10 NBA restaurants throughout the world in the next three years.

The two companies said Hard Rock has committed $90m to the venture with the first restaurant expected to open in early 1999 at Universal Studios in Florida.

Burmah Castrol rose 56 to £10.65 with help from a Robert Fleming "buy" recommendation. The broker says the Asia effect is already in the price.

JKX Oil & Gas shed 6 to 39p as the company announced that receipts for 1997 gas sales were well below expectations.

Results from BAA that came in the middle of expectations saw the shares rise 7 to 485p, as the company showed that it had managed to replace the shortfall in Asian travellers.

British Airways rose 8 to 523p in brisk volume of 6.3m as the stock was said to have been caught in a two-way pull. A belief that regulatory approval for its American Airlines link-up was contrasted with investor fears over rising tension in the Gulf.

Railtrack was up 18 to 986½p on hopes of regulatory easing if it takes over the high-speed rail link to the Channel tunnel.

Bid fever gripped telecoms issues sending two of the sector's leading stocks sharply ahead.

BT speculation

The renewed speculation settled on British Telecommunications, which was beaten last year in its attempt to acquire US group MCI. Shares in the group yesterday gained 9¼ to 594½p after trade of 13m. The prospect of a share buyback or special dividend from the receipts of BT's sale of its 20 per cent stake in MCI also helped boost sentiment.

Bid speculation, together with the strength of the Hong Kong market, also helped Cable & Wireless jump 37 or 6.4 per cent to 619p. Merger talks between both C&W and BT were held in 1996 before being abandoned.

Shares in pubs and restaurants company Gibbs Mew jumped 52 to 306½p after it said it was in talks which may lead to an offer being made for the company.

JD Wetherspoon was the worst performer in the FTSE 250 as brokers continued to downgrade current-year profit estimates. The shares fell 15 to 277½p.

Among smaller companies, an announcement from Aim-traded La Senza that it was in takeover talks saw the shares up 8½ to 25½p. A weekend press report had linked the lingerie retailer with Ann Summers, the private company.

A profits warning from Channel Islands Communications (Television) saw the shares down 26 to 73½p.

Kode International, the printed circuit board maker that is subject to an agreed 150p a share offer from a US venture capitalist, was unchanged at 143½p.

Rage Software, which last week announced that Compaq, the US computer maker, was to buy one of its games, was unchanged at 6½p.

FT 30 INDEX

	Feb 2	Jan 30	Jan 29	Jan 28	Jan 27	Yr ago	*High	†Low
FT 30	3409.9	3358.6	3340.8	3338.1	3305.7	2637.5	3490.3	2658.8
Ord. div. yield	3.17	3.24	3.27	3.29	3.31	4.07	4.22	3.29
P/E ratio net	22.39	21.66	21.7	21.57	21.4	17.51	22.39	15.8
P/E ratio nil	22.19	21.68	21.51	21.38	21.22	17.34	22.02	15.71

FT 30 since compilation: high 3490.3 16/10/97; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9	10	11	12	13	14	15	16	High	Low
NA	NA	NA	NA	NA	3411.1	3415.1	3412.3	3408.9	NA	NA

	Feb 2	Jan 30	Jan 29	Jan 28	Jan 27	Yr ago
SEAQ bargains	83,960	63,084	56,329	59,089	70,839	48,775
Equity turnover (£m)†	–	NA	NA	2222.4	2573.2	503.6
Equity bargains†	–	NA	NA	56,799	65,918	18,053
Shares traded (mil)†	–	NA	NA	848.9	982.2	188.7

†Excluding intra-market and overseas turnover but including Crest turnover.
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London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	1,169	Total Highs	285	Total contracts	37,005
Total Falls	533	Total Lows	61	Calls	22,425
Same	1,332			Puts	14,580

Feb 2 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	5600.0	5626.0	+169.0	5640.0	5570.0	11698	63179
Jun	5690.0	5689.0	+173.0	5690.0	5690.0	190	1546

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar		4907.0	−13.0			0	6199

■ FTSE 100 INDEX OPTION (LIFFE) (*5600) £10 per full index point

[illegible]

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

Calls 5,003 Puts 7,596 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1997/98 High	Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
–	F.P.	–	96	93½	Abbey Nat Dublin II	[illegible]					
–	F.P.	2,805	520	500	Diageo B	[illegible]					
§25	F.P.	1.42	35½	29½	†General Inds	[illegible]					
135	F.P.	5.06	144½	139½	†Longmead	[illegible]					
§110	F.P.	115.6	124½	93	Marchpole	[illegible]					
§102	F.P.	28.2	102½	102½	†Razorback Vhcls	[illegible]					
–	F.P.	6.66	57½	57½	Richards Grp	[illegible]					
–	F.P.	–	6	6	Sanctuary Wrts	[illegible]					
–	F.P.	175.6	112	95½	Second Scot Natl	[illegible]					
–	F.P.	102.1	101¼	99½	Do Zero Div Prf	[illegible]					

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Jan 30	% chg on day	Jan 29	Year ago	Gross div yield %	P/E ratio	52 week High	Low
Gold Mines Index (34)	1117.63	−0.7	1125.60	1707.53	1.45	–	1902.48	881.23
■ Regional Indices								
Africa (15)	1202.76	−1.1	1216.02	1986.36	5.71	21.63	2233.55	821.76
Australasia (7)	1485.03	−0.8	1427.41	1980.48	2.49	18.17	2124.22	933.63
North America (12)	1085.32	−0.8	1094.33	1667.48	1.32	38.40	1780.85	864.86

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FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Feb 2	Day's chge%	Jan 30	Jan 29	Year ago	Gross div yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5599.0	+2.6	[illegible]							
FTSE 250	4878.4	+0.3	[illegible]							
FTSE 250 ex IT	4889.2	+0.3	[illegible]							
FTSE 350	2659.4	+2.2	[illegible]							
FTSE 350 ex IT	2665.2	+2.2	[illegible]							
FTSE 350 Higher Yield	2668.5	+2.3	[illegible]							
FTSE 350 Lower Yield	[illegible]									
FTSE SmallCap	[illegible]									
FTSE SmallCap ex IT	[illegible]									
FTSE All-Share	[illegible]									
FTSE All-Share ex IT	[illegible]									

■ FTSE Actuaries Industry Sectors

[illegible]

■ Hourly movements

[illegible]

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FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks yesterday.

[illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Feb 2 / Sch)

BELGIUM/LUXEMBOURG (Feb 2 / Frs.)

CZECH REP (Feb 2 / Koruna)

DENMARK (Feb 2 / Kr)

FINLAND (Feb 2 / Mks)

FRANCE (Feb 2 / Frs.)

GERMANY (Feb 2 / Dm.)

GREECE (Feb 2 / Drachma)

ITALY (Feb 2 / Lira)

NETHERLANDS (Feb 2 / Fls.)

NORWAY (Feb 2 / Krone)

POLAND (Feb 2 / Zloty)

PORTUGAL (Feb 2 / Escudo)

SPAIN (Feb 2 / Pts.)

SWEDEN (Feb 2 / Kronor)

SWITZERLAND (Feb 2 / Frs.)

TURKEY (Feb 2 / Tk. Lira)

PACIFIC

JAPAN (Feb 2 / Yen)

HONG KONG (Feb 2 / H.K.$)

INDONESIA (Feb 2 / Rupiah)

MALAYSIA (Jan 26 / MYR)

NEW ZEALAND (Feb 2 / NZ $)

SINGAPORE (Feb 2 / S$)

AUSTRALIA (Feb 2 / Aust$)

SOUTH KOREA (Feb 2 / Won)

TAIWAN (Feb 2 / TW $)

THAILAND (Feb 2 / Baht)

AFRICA

SOUTH AFRICA (Feb 2 / Rand)

NORTH AMERICA

CANADA

TORONTO (Feb 2 / Can $)

MONTREAL (Feb 2 / Can $)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY JANUARY 30 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY JANUARY 29 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (73)	212.11	1.6	192.38	170.01	201.57	205.84	0.3	3.69	208.84	188.98	165.28	197.96	205.13	243.87	190.26	213.66
Austria (23)	195.61	0.8	177.65	156.95	186.09	185.97	1.1	1.78	194.17	175.66	153.66	184.05	183.93	213.59	175.14	182.27
Belgium (26)	265.94	0.3	241.14	213.15	252.74	247.25	0.5	2.79	265.09	239.86	209.80	251.28	246.10	267.34	227.73	230.95
Brazil (30)	221.20	-1.0	200.57	177.30	210.22	457.29	-0.9	1.61	223.34	202.08	176.75	211.71	461.42	322.44	184.94	207.66
Canada (121)	208.55	-0.2	189.10	167.16	198.19	220.75	-0.9	1.80	209.00	189.11	165.41	198.12	221.35	238.86	178.27	198.38
Denmark (34)	455.22	-0.7	412.77	364.87	432.62	431.30	-0.5	1.19	458.56	414.91	362.90	434.67	439.33	468.33	349.27	353.53
Finland (28)	301.02	0.1	272.95	241.27	286.06	349.69	0.4	1.80	300.59	271.96	237.80	284.99	349.45	349.43	243.25	254.19
France (81)	248.28	1.1	223.31	197.40	234.05	238.50	1.2	2.28	243.71	220.52	192.86	231.02	233.63	246.29	209.81	216.84
Germany (58)	238.03	0.3	214.02	189.18	224.31	224.31	0.6	1.35	235.32	212.92	186.23	223.06	223.06	243.87	187.39	187.39
Hong Kong, China (66)	298.77	0.0	270.91	239.47	283.93	296.63	0.0	5.36	298.87	270.42	236.53	283.30	296.82	580.03	262.93	491.87
Indonesia (27)	48.00	4.3	41.71	36.87	43.72	286.33	0.0	2.27	44.11	39.91	34.91	41.82	286.38	254.90	27.67	245.14
Ireland (16)	421.98	1.3	362.63	338.22	401.03	434.11	1.6	2.29	416.72	377.05	329.79	395.01	427.11	421.98	321.33	323.91
Italy (53)	129.60	1.3	117.51	103.88	123.17	174.53	1.5	1.40	127.90	115.72	101.22	121.23	171.96	129.80	83.01	92.53
Japan (481)	104.48	-2.4	94.74	83.75	99.30	83.75	-1.2	0.95	107.09	96.89	84.75	101.51	84.75	141.12	88.52	111.96
Malaysia (107)	147.61	4.4	133.85	118.31	140.28	237.70	0.0	3.05	141.38	127.93	111.89	134.02	237.70	660.85	113.56	621.34
Mexico (26)	1533.53	2.2	1390.53	1229.15	1457.40	14184.76	2.4	1.69	1500.60	1357.77	1187.58	1422.43	13853.84	1901.98	1324.80	1331.11
Netherlands (18)	413.84	0.0	375.07	331.54	393.10	388.89	0.2	2.16	413.52	374.16	327.26	391.98	388.08	440.67	328.42	328.96
New Zealand (14)	74.81	-0.2	67.84	59.97	71.10	67.91	0.7	4.55	74.96	67.83	59.32	71.08	67.44	96.47	71.49	92.17
Norway (38)	296.43	0.3	268.78	237.59	281.71	304.90	0.0	1.96	285.67	267.53	234.00	280.27	304.83	374.64	261.62	313.70
Philippines (22)	78.15	10.5	70.88	62.64	74.27	166.11	10.1	1.16	70.72	63.99	55.97	67.03	150.84	214.07	57.54	210.84
Singapore (42)	177.09	0.5	160.57	141.94	168.29	140.12	0.0	2.29	176.26	159.49	139.50	167.08	140.12	448.01	144.01	434.90
South Africa (43)	277.75	0.6	251.65	222.53	263.96	299.72	0.9	2.78	276.09	249.81	218.50	261.71	297.17	370.12	227.86	324.29
Spain (33)	282.72	0.0	265.43	234.62	278.19	343.72	0.2	2.04	292.73	264.87	231.67	277.48	343.17	298.08	206.12	213.49
Sweden (48)	475.90	-0.3	431.52	381.44	452.27	571.22	-0.2	1.82	477.33	431.90	377.78	452.46	572.50	538.94	405.00	420.58
Switzerland (31)	353.16	0.5	320.23	283.07	335.63	323.08	0.8	1.04	351.42	317.97	278.12	333.12	320.38	358.16	240.99	240.99
Thailand (39)	27.42	21.8	24.86	21.98	26.06	56.13	16.7	5.14	22.52	20.37	17.82	21.34	48.09	96.92	13.10	96.82
United Kingdom (213)	347.65	0.4	315.29	278.65	330.39	315.23	0.6	3.13	348.17	313.22	273.96	328.14	313.22	347.65	271.72	273.81
USA (638)	399.82	-0.5	362.53	320.46	379.97	399.82	-0.5	1.57	401.75	363.51	317.95	380.82	401.75	401.75	299.79	319.29
Americas (815)	361.98	-0.5	328.22	290.13	344.00	305.94	-0.5	1.56	363.62	329.01	287.77	344.66	307.34	385.75	274.59	292.15
Europe (702)	300.76	0.5	272.73	241.08	285.85	288.78	0.7	2.23	299.45	270.95	236.99	283.65	288.89	300.78	237.57	237.57
Nordic (149)	418.66	-0.3	379.62	335.56	397.87	437.00	-0.1	1.72	419.79	379.78	332.18	397.88	437.67	464.88	355.77	966.55
Pacific Basin (871)	111.89	-1.7	101.45	89.68	106.33	91.19	-0.9	1.61	113.82	102.98	90.07	107.89	91.99	158.99	95.32	133.54
Euro-Pacific (1573)	190.68	-0.3	172.90	152.83	181.21	165.61	0.1	2.02	191.26	173.05	151.38	181.29	165.90	209.12	172.03	176.88
North America (759)	387.53	-0.5	351.39	310.61	368.29	367.75	-0.5	1.58	389.36	352.30	308.14	369.06	369.59	389.57	292.34	312.00
Europe Ex. UK (489)	269.05	0.5	249.97	215.65	255.70	267.12	0.7	1.72	267.84	242.35	211.97	253.80	265.35	269.06	212.87	212.87
Pacific Ex. Japan (390)	185.33	1.3	168.05	148.55	176.13	185.89	0.4	4.20	182.98	165.54	144.79	173.43	185.13	318.98	161.31	312.35
World Ex. US (1793)	193.63	-0.3	175.57	155.19	184.01	171.75	0.1	2.01	194.15	175.67	153.65	184.04	171.53	212.89	175.30	180.33
World Ex. UK (2218)	251.72	-0.5	228.24	201.76	239.22	229.74	-0.3	1.62	262.92	228.85	200.16	239.74	230.39	262.59	211.16	219.96
World Ex. Japan (1950)	337.80	-0.1	306.30	270.75	321.03	333.78	0.0	1.91	339.07	305.89	267.65	320.48	333.90	344.36	271.90	282.04
The World Index (2491)	259.83	-0.4	235.60	208.26	246.83	297.42	-0.2	1.79	260.82	235.88	208.41	247.23	237.85	268.47	216.61	224.59

 CHANGE 2/2/98: Name change: (C) Australia to Orica(Australia). CHANGES EFFECTIVE 3/2/98: Addition: Ergo Versicherungsgruppe (Medium-Small Cap) (Germany). Deletion: Victoria Holding (Germany). CHANGES EFFECTIVE 4/2/98: Share weighting change: Ayala Land (43% to 22% weighting) (Philippines). Reclassification: Sophus Berendsen 'A' & 'B' (Business Services (481) to Wholesale Distribution (877)) (Denmark). Latest prices were unavailable for this edition. Markets closed 30/1/98: Hong Kong, Indonesia, Malaysia and Singapore.

Emerging markets: IFC Investable indices

Dollar terms

Jan 30

FT Free Annual Reports Service

4 pm close February 2

NEW YORK STOCK EXCHANGE PRICES

- X - Y - Z -

1997/98 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]	51½	Xerox	1.44	1.7	[illegible]	[illegible]	[illegible]	82	[illegible]	[illegible]
67	40½	Xtra Corp	0.88	1.5	19	287	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Yankee Egy	1.34	5.4	15	70	[illegible]	[illegible]	25	[illegible]
58	34⅜	York Int	0.48	1.3	13	720	[illegible]	[illegible]	[illegible]	[illegible]
11¼	4	Zapata x	0.28	2.8	36	623	[illegible]	[illegible]	[illegible]	[illegible]
13½	6¼	ZenithEl				3171	7	6¾	[illegible]	[illegible]
[illegible]	24½	Zenith Nat x	1.00	4.0	14	74	[illegible]	25	[illegible]	[illegible]
[illegible]	7⅛	Zweig Inc x	0.76	9.0		194	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	17¾	Zero	0.12	0.5	18	551	[illegible]	[illegible]	[illegible]	[illegible]
14	10½	ZweigFdX	1.24	9.4		483	[illegible]	[illegible]	[illegible]	[illegible]
9¾	8	Zweig Totl	0.84	8.8		828	[illegible]	[illegible]	[illegible]	+1/16

Price data supplied by Extel, part of FT Information

Yearly highs and lows for NYSE reflect the period from Jan 1, 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Jan 30	Jan 29	Jan 28	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
Industrials	7906.50	7973.02	7915.47	8259.31 (6/8/97)	6391.69 (11/4/97)	8259.31 (6/8/97)	41.22 (8/7/32)
Home Bonds	105.18	104.99	104.92	105.48 (15/1/98)	101.09 (14/4/97)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	3309.07	3340.22	3312.59	3368.82 (20/1/98)	2222.07 (2/1/97)	3368.52 (20/1/98)	13.23 (8/7/32)
Utilities	263.29	268.90	263.90	272.01 (30/12/97)	208.47 (25/4/97)	272.81 (30/12/97)	16.53 (8/7/32)

DJ Ind. Day's high 8023.83 (8062.94) Low 7850.95 (7854.19) (Theoretical♦)
Day's high 7965.97 (8015.12) Low 7893.05 (7883.06) (Actual♦)

Standard and Poors	Jan 30	Jan 29	Jan 28	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
Composite‡	980.28	985.49	977.46	985.49 (29/1/98)	737.01 (2/1/97)	985.49 (29/1/98)	4.40 (1/6/32)
Industrials♥	1145.72	1151.85	1142.18	1151.85 (29/1/98)	865.42 (11/4/97)	1151.85 (29/1/98)	3.52 (30/6/32)
Financial♥	115.24	115.79	114.83	120.83 (8/12/97)	80.75 (2/1/97)	120.83 (8/12/97)	7.13 (4/9/74)
Others							
NYSE Comp.	510.83	513.13	509.22	514.31 (8/12/97)	369.47 (11/4/97)	514.31 (5/12/97)	4.64 (25/4/42)
Amex Comp	668.42	668.86	667.55	721.98 (7/10/97)	541.20 (28/4/97)	721.90 (7/10/97)	524.20 (16/7/98)
NASDAQ Cmp	1619.36	1619.49	1610.82	1745.85 (9/10/97)	1201.00 (2/4/97)	1745.85 (9/10/97)	54.87 (3/10/74)
Russell 2000	430.05	431.99	428.60	465.21 (13/10/97)	335.85 (25/4/97)	465.21 (13/10/97)	123.35 (7/12/93)

■ RATIOS

	Jan 30	Jan 23	Jan 16	Year ago
Dow Jones Ind. Div. Yield	1.74	1.79	1.77	1.98
	Jan 28	Jan 21	Jan 14	Year ago
S & P Ind. Div. yield	1.47	1.47	1.50	1.78
S & P Ind. P/E ratio	28.53	28.31	25.88	23.98

US DATA

■ MARKET ACTIVITY

● Volume (million)

	Jan 30	Jan 29	Jan 28
NYSE	613.380	754.480	711.260
Amex	28.453	30.544	23.867
NASDAQ	736.434	830.845	785.221

NYSE	Jan 30	Jan 29	Jan 28
Issues Traded	3,425	3,454	3,441
Rises	1,448	1,855	1,907
Falls	1,458	1,065	1,031
Unchanged	519	534	503
New Highs	120	183	123
New Lows	22	32	47

■ NYSE TRADING ACTIVITY — Volume : 729,500,000

■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Compaq	8,524,700	30⅞	-⅛
Ph Morris	5,795,000	41⅛	-⅛
AT & T	5,398,300	62¾	-⅛
Fst Data Cp	3,331,400	30¾	+1⅛
CBS Corp	5,037,300	29⅞	+⅜
Iomega	4,722,700	9⅛	+⅛
Seagate Tch	4,382,000	23⅞	+2⅞
EMC Corp	4,082,600	32⅛	-⅛
Wstn Digit	3,804,600	18⅞	+1⅜
Loral Space	3,797,100	22⅞	-⅛

■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Seagate Tch	23⅞	+2⅞	+12.4
Cabot Inds	22⅛	+2⅛	+12.5
Gulf Inds	19⅛	+2	+11.4
Hanseng Pwr	22⅛	+2⅞	+11.3
Downs			
TIG Hldgs	25⅞	-5⅞	-17.8
Vesta Ins	58⅛	-7⅛	-11.6
Transocean Ol	39⅛	-2⅛	-5.8
Kellogg	45⅛	-2⅛	-5.1

■ NASDAQ TRADING ACTIVITY — Volume :782,880,000

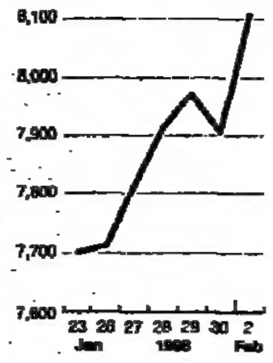
■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Oracle Cp	21,379,800	23⅛	+⅞
Worldcom	21,310,800	35⅞	+1
ASE Test	14,865,800	66⅛	+2⅛
Aandigics	11,787,100	14⅛	-19⅞
Intel Corp	11,329,400	81	-1
Quantum Cp	10,074,600	24⅛	+3⅛
Cisco Sys	8,647,200	63⅞	-⅞
Tel Cm TCI A	8,266,600	28	-⅛
Appld Matl	7,856,700	32⅞	+1⅛
ADC Telecom	7,210,200	19	+1⅞

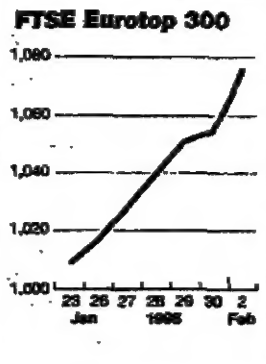
■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Pressure	14⅛	+7⅞	+105.4
Verisign	25⅛	+11⅜	+82.1
Oxford Hlth	17⅛	+3⅛	+21.2
Pope Res	29	+4	+15
Downs			
Aandigics	14⅛	-19⅞	-58.2
Heartport	13⅛	-3⅛	-22.1
CSK Corp	25⅛	-4	-13.6
Sers	23⅛	-3⅛	-13.3

Dow Jones



FTSE Eurotop 300



JAPAN

	Feb 2	Jan 30	Jan 29	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
Nikkei 225	15776.82	16628.47	17214.53	20681.1	14664.4	38915.9	85.25

Day's high 16806.69 Day's low 16640.76

■ TOKYO TRADING ACTIVITY — Volume : 458,000,000

■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Yamaichi Sec	29,670,000	3	
Np Steel Cp	14,908,000	186	-3
Mitsbi Hvy	10,557,000	517	-26
Adld Corp	9,023,000	88	-10
Fujita Co	8,119,000	121	-2
LTCB	7,735,000	270	-15
NKK Corp	7,190,000	137	+2
Sakura Bank	6,773,000	458	-17
NEC Corp	6,636,000	1520	+20
Fuji Bank	5,479,000	767	-28

■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Komatsu Zen	332	+80	+31.8
Arai-Gumi	415	+74	+21.7
Fst Baking	150	+19	+14.5
Odakyu Const	345	+43	+14.2
Downs			
Tesec Corp	111	-21	-15.9
Morozoff	272	-46	-14.5
Jpn Bridge	250	-40	-13.8
Tsumura	605	-90	-13

FRANCE

	Feb 2	Jan 30	Jan 29	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
CAC 40	3187.50	3172.14	3133.82	3187.5	2256.97	3187.5	984.61

Day's high 3221.58 Day's low 3176.30

■ PARIS TRADING ACTIVITY — Volume : 546,401,760

■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
France Telcm	2,652,278	257.6	-3.9
Rhne-Pnc A	2,305,186	282	+2
BNP	1,394,034	324	+7.4
Usinor	1,218,253	85.25	-1.05
Renault	980,415	203	-7.9
Axa-UAP	950,735	514	-5
Elf Aquitne	889,220	685	-7
Soc Gen	849,728	817	+21
Alcatel	717,062	796	-17
Euro Disney	655,087	8.55	-0.1

■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Hldng Ind Trs	530	+180	+51.4
ANF	689	+63	+10.1
UFB-Locbl	505	+45	+9.8
Mille Amis	38.4	+3.4	+9.7
Downs			
Mory	16.1	-7.9	-32.9
CEE	86.75	-9.25	-9.6
El de Strsbrg	528	-52	-9
Artois	46.75	-4.15	-7.8

GERMANY

	Feb 2	Jan 30	Jan 29	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
DAX	4522.81	4440.38	4419.38	4522.81	2848.77	4522.81	931.18

Day's high 4531.93 Day's low 4488.11.

■ FRANKFURT TRADING ACTIVITY — Volume : 14,668,225

■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Bayer	1,604,641	73.65	+5.15
BASF	1,140,288	63.9	-1.85
Commzbank	1,080,191	66	-1.5
Siemens	1,006,618	112.9	+1.15
Lufthansa	859,785	33	
Hoechst	827,620	70	+5.7
Deut Telkm	779,558	32.6	+0.6
Deut Bank	742,930	118.45	-0.45
Dresdnr Bank	620,853	81.9	
Veba	543,488	125.9	-0.5

■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Data Modul	85.7	+7.9	+10.2
Altana	147	+12.5	+9.3
Hoechst	70	+5.7	+8.9
Henkel	102.5	+7.5	+7.9
Downs			
Rwcl	51	-4.5	-8.1
Strabag NV	115	-5	-4.2
Praktiker	24	-1	-4
Ascom Hldg	120.5	-4.5	-3.6

UK

	Feb 2	Jan 30	Jan 29	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
FTSE 100	5599.0	5458.5	5422.4	5599	4055.6	5599	986.9

Day's high 5616.1 Day's low 5458.5

■ LONDON TRADING ACTIVITY — Volume : 816,700,000

■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
SmKl.Bchm	52,348,110	845	+85
Glaxo Wlcm	30,800,220	1983	+340
Brit Steel	18,521,340	132½	+½
BTR	17,063,270	170	+6
Reuters	14,901,620	548	+48
BT	13,336,840	594½	+9½
Sears	12,153,410	50	-½
Rolls-Royce	11,818,180	213½	+6½
Centrica	9,974,672	109	+1
Shell T&T	9,893,049	416	

■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
La Senza	25½	+8½	+50
Phytopharm	100½	+20½	+25.6
Glaxo Wlcm	1983	+341	+20.8
Gibbs Mew	308½	+52	+20.3
Downs			
Chann Is Hlg	73½	-26	-26.1
Shmptn Leis	66	-10½	-13.7
JKX Oil & Gas	39	-6	-13.3
Norm Petro	17½	-2½	-12.5

INDEX FUTURES

■ S&P 500	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	987.70	1000.70	+12.90	1002.80	987.80	108,439	387,417
Jun	–	987.80	–	1003.00	994.40	779	13,168
■ Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	16840.0	16840.0	+180.0	16950.0	16690.0	17,477	188,232
Jun	16669.0	16750.0	+120.0	16880.0	16650.0	3,147	35,004

Open interest figures for previous day.

■ CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Feb	3191.0	3191.0	+8.0	3235.0	3190.0	16,024	39,845
Mar	3236.0	3199.5	+48.0	3237.5	3200.0	379	24,265
■ DAX							
Mar	4485.0	4555.0	+97.0	4570.0	4485.0	24,871	73,080
Jun	4530.0	4584.0	+103.0	4598.0	4530.0	2,959	21,073

■ OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Feb	2555.00	2568.00	+58.00	2584.25	2550.00	4,619	26,826
Mar	2572.00	2579.50	+63.00	2598.00	2572.00	50	2,554
■ SOFFEX							
Feb	6650.0	6687.0	+87.00	6710.0	6650.0	4,389	19,526
Mar	6670.0	6696.0	+103.7	6713.0	6670.0	64	815

WORLD MARKETS AT A GLANCE

Country	Index	Feb 2	Jan 30	Jan 29	1997/98 High	1997/98 Low	⚘ Yield	⚘ P/E
Argentina	General	21495.75	21045.69	21215.34	28771.79 22/10/97	18227.40 2/1/97	3.12	17.9
Australia	All Ordinaries	2670.1	2658.7	2642.7	2779.20 25/9/97	2280.20 28/10/97	3.38	19.6
	All Mining	645.4	641.2	636.2	987.30 24/2/97	541.10 27/11/97		
Rallied with the A$ after a larger-than-expected December trade deficit eased fears of an Asian-induced slowdown.								
Austria	Credit Aktien	(c)	479.92	466.80	479.92 30/1/98	374.40 9/1/97	1.93	13.6
	Traded Index	1349.97	1345.89	1332.33	1490.49 31/7/97	1138.22 9/1/97		
Failed to latch on to the buoyant mood in other European bourses.								
Belgium	BEL20	2614.10	2579.70	2578.19	2621.90 28/7/97	1871.06 2/1/97	2.1	17.7
Financials strongly higher following Friday's announcement of a four-way bancassurance merger.								
Brazil	Bovespa	9944.0	9720.0	9788.0	13617.00 8/7/97	6865.89 2/1/97	0.73	na
Market ended 2.6 per cent higher, lifted by Wall Street.								
Canada	TSE 100♦	413.43	407.05	409.08	438.48 7/10/97	342.12 11/4/97	1.59	18.7
	Metals Mins♦	4138.03	4079.15	4082.55	6661.76 10/3/97	3442.35 12/1/98		
	Composite♦	6787.00	6700.20	6719.00	7209.99 7/10/97	5579.30 14/4/97		
	Portfolio§§	3503.95	3444.44	3469.95	3547.88 7/10/97	2848.02 11/4/97		
♦Opened higher, encouraged by gains in Asian and European markets. Gold and oil were the only sub-indices to lose ground.								
Chile	IGPA Gen♥	4404.85	4321.58	4260.49	5688.71 4/7/97	4243.47 27/1/98	3.03	14.1
China	Shanghai B	(c)	(c)	(c)	98.21 7/5/97	40.89 12/1/98	0.81	54.1
	Shenzhen B	(c)	(c)	(c)	194.20 6/6/97	77.86 12/1/98		
Closed for holiday.								
Colombia	IBB	1362.19	1362.19	1356.26	1633.72 16/10/97	844.41 2/1/97	na	na
Czech Republic	PX 50	461.5	455.7	457.7	629.06 25/2/97	455.79 30/1/98	na	na
Heavyweight telecoms utility SPT Telecom led the market higher, gaining 4.4 per cent on better-than-expected results.								
Denmark	CopenhagenSE	698.02	690.28	695.59	708.09 6/1/98	470.14 2/1/97	1.22	22.4
Novo Nordisk gained ground following news of merger talks between Glaxo Wellcome and SmithKline Beecham.								
Egypt	Cairo SE Gen	345.4	(c)	(c)	– –	– –	na	na
Banking stocks fell sharply on uncertainty surrounding a new tax law.								
Finland	HEX General	3524.75	3591.80	3578.63	3689.81 22/10/97	2455.28 2/1/97	2.19	15.1
Technology group Nokia and forestry stock UPM Kymmene, which have driven the market higher of late, again posted gains.								
France	SBF 250	2080.01	2050.28	2027.04	2080.01 2/2/98	1533.19 2/1/97	2.51	17.8
	CAC 40	3187.50	3172.14	3133.82	3187.50 2/2/98	2256.97 2/1/97		
Merger talk in the banking and pharmaceutical sectors helped the market to a new record close.								
Germany	FAZ Aktien	1459.81	1437.15	1429.43	1481.44 31/7/97	986.21 2/1/97	1.4	28.1
	Commerzbank	4308.30	4239.30	4218.80	4328.70 31/7/97	2875.80 2/1/97		
	DAX‡	4522.81	4440.38	4419.38	4522.81 2/2/98	2848.77 2/1/97		
Merger fever drove chemicals and pharmaceuticals stocks higher, with Hoechst, Bayer and Schering all gaining strongly.								
Greece	Athens SE	1398.39	1395.40	1380.13	1794.14 8/10/97	954.54 2/1/97	3.14	14.1
	FTSE/ASE 20	766.51	761.39	755.18	898.85 10/12/97	755.18 29/1/98		
Did not follow the climb in European bourses, posting small gains after a light reduction in money market interest rates.								
Hong Kong	Hang Seng	10576.80	(c)	(c)	16673.38 7/8/97	8121.06 12/1/98	4.2	8.9
	HSCC Red Chip	1310.68	(c)	(c)	4118.55 27/8/97	864.30 12/1/98		
Second largest points gain on record. Turnover, at HK$20.8bn, was at levels unseen since early November.								
Hungary	Bux	7573.44	7421.65	7439.41	8462.88 4/8/97	4281.30 6/1/97	na	na
Foreigners were seen making purchases in the wake of strong gains in Asian markets.								
India	BSE Sens.	3354.80	(c)	3224.36	4548.02 5/8/97	3209.86 28/1/98		
	Crisil 500	613.55	(c)	594.38	843.88 5/8/97	594.38 29/1/98	na	na
Shares surged in speculative trading on the back of the strong rally in Asia.								
Indonesia	Jakarta Comp.	554.10	(c)	(c)	740.83 8/7/97	339.53 15/12/97	2.05	16.7
Investors, encouraged by the country's economic reform plans, chased shares sharply higher.								
Ireland	ISEQ Overall	4486.50	4375.37†	4322.21	4486.50 2/2/98	2725.07 3/1/97	2	20.7
Israel	Mishtanim 100	273.75	(c)	257.06	311.76 6/8/97	214.15 2/1/97	na	na
Shares finished higher for the third successive session, helped by the strong rally on Asian markets.								
Italy	BCI Comit 30	281.05	279.21	275.13	281.05 2/2/98	155.74 2/1/97	1.6	24.4
	Banca Com Ital	1202.8	1181.62	1173.17	1202.80 2/2/98	660.42 2/1/97		
	Mibtel General	19155.0	18698.0	18777.0	19155.00 2/2/98	10498.00 2/1/97		
Bank shares soared amid renewed merger talk, but Fiat fell on Brazilian car sales worries.								
Japan	Nikkei 225	16776.82	16628.47	17014.59	20681.10 16/6/97	14664.40 12/1/98	0.89	43.1
	Nikkei 300	251.24	251.47	254.84	303.71 28/7/97	224.85 12/1/98		
	Topix	1282.08	1267.51	1294.59	1560.28 25/6/97	1128.61 12/1/98		
	2nd Section	1338.70	1338.05	1354.36	1848.25 30/6/97	1160.55 24/12/97		
Nikkei-225 raced to an intra-day high of 16,808 after LDP's acting secretary general called for an extra Y6,000bn budget.								
Jordan	Amman SE	(d)	(c)	(c)	– –	– –	na	na
Shares slipped lower amid mounting concern about the possibility of a military strike against Iraq.								
Malaysia	KLSE Comp.	(c)	(c)	(c)	1271.57 25/2/97	477.57 12/1/98	2.89	10.4
Closed for holiday.								
Mexico	IPC	4609.03	4569.36	4477.80	5389.48 21/10/97	3389.46 2/1/97	1.21	13.6
&Posted sharp gains in early trading on the back of the general rally in Asia. Shares drifted off highs at midsession.								
Morocco	CASA	670.08	(c)	669.59	689.75 23/4/97	461.90 3/1/97	na	na
Shares marginally gained ground, but dealing remained sluggish in the immediate aftermath of Ramadan.								
Netherlands	CBS TtlRtnGen	1124.1	1117.1	1113.6	1184.80 7/8/97	730.80 2/1/97	2.06	21.9
	CBS All Shr	644.4	640.4	638.4	684.49 7/8/97	429.00 2/1/97		
Chemicals and drug stock Akzo Nobel gained following news of Glaxo Wellcome's planned merger with SmithKline Beecham.								
New Zealand	Cap. 40	2226.00	2222.71	2221.51	2636.48 22/10/97	2162.01 28/10/97	4.03	18.5
Restaurant Brands tumbled to new low after reporting maiden results slightly below the prospectus forecast.								
Nigeria	SE All-Share	6433.33	6435.62	(c)	– –	– –	na	na
Shares fell slightly as beverage stock Cadbury and United Textiles came under pressure.								
Norway	Oslo SE Ind	2085.07	2061.38	2045.77	2287.96 22/10/97	1639.03 2/1/97	1.68	14.1
Shares ended higher, pulled up by sharp gains in Asian markets, but slightly restrained by a decline in oil prices.								
Pakistan	Karachi SE	1669.46	(c)	(c)	2087.96 22/10/97	1341.31 7/1/97	na	na
Hub Power pushed higher on hopes it will announce a maiden interim cash dividend with its results on February 12.								
Peru	Lima Gen	1682.58	1624.65	1603.31	2089.40 10/7/97	1429.78 2/1/97	na	na
Philippines	Manila Comp	2145.70	1948.01	1796.68	3447.60 3/2/97	1818.00 8/1/98	1.32	12.7
Hopes of a gradual economic recovery after last week's favourable data generated the biggest percentage gain since 1987.								
Poland	WIG	14978.2	14601.5	14378.2	19339.40 18/2/97	13228.80 12/1/98	0.89	14.4
Rose for a fourth session running, helped by Asia's rally and official hints that interest rates might come down.								
Portugal	BVL 30	4399.73	4312.57	4339.68	4399.73 2/2/98	2165.57 2/1/97	1.03	40.5
	PSI 20	10264.16	10057.53	10116.11	10264.20 2/2/98	5152.34 2/1/97		
Rose to a fresh all-time high, driven by strong gains in banking and cement stocks.								
Russia	RTS	300.61	294.35	265.93	571.66 6/10/97	213.38 6/1/97	na	na
Rallied by more than 5 per cent, helped by gains in Asian markets, but few foreign investors were seen buying.								
Singapore	SES All-S'pore	410.15	(c)	(c)	573.03 17/2/97	324.92 12/1/98	2.59	12.9
	Straits Times	1432.99	(c)	(c)	2271.86 28/1/97	1073.47 12/1/98		
Frantic buying and subsequent short-covering sent shares sharply higher on enormous volumes.								
Slovakia	SAX	156.98	154.82	154.47	208.64 21/3/97	154.20 28/1/98	na	na
Only two stocks were traded on the listed market, with activity continuing to be all but non-existent.								
South Africa	JSE Gold	887.2♥	881.1	888.4	1598.10 27/2/97	670.10 5/12/97	2.33	15.2
	JSE Indl.	7761.6♥	7699.6	7648.2	9314.20 7/8/97	6715.10 13/1/98		
Traders reported broad-based buying, with attention centred on blue chips. Diamond producer De Beers surged 5 per cent.								
South Korea	KoreaCmpEx**	543.68	558.33	(c)	792.29 17/6/97	350.68 12/12/97	2.08	16.3
Fears high interest rates would induce widespread bankruptcies sent shares sharply lower following last week's big gains.								
Spain	Madrid SE	707.57	695.68	689.97	707.57 2/2/98	434.54 2/1/97	2.13	23.6
Closed at a new all-time high. Argentaria ended 3 per cent higher on optimism about its privatisation offering.								
Sri Lanka	CSE All Share	665.10	662.10	661.80	869.70 31/7/97	608.70 2/1/97	na	na
Foreign buying of selective blue chips pushed shares higher.								
Sweden	AffarsvarldnGen	(d)	3103.4	3107.7	3315.80 7/8/97	2378.50 2/1/97	1.7	22.2
Drug stocks Astra and Pharmacia & Upjohn were the main feature following Glaxo Wellcome-SmithKline Beecham merger talks.								
Switzerland	SMI Index	6638.0	6582.6	6530.4	6698.00 2/2/98	3922.80 7/1/97	1.07	24.8
	SPI General	4139.41	4078.41	4047.06	4139.41 2/2/98	2508.22 6/1/97		
Gained on speculation of further drug sector mergers following news that Glaxo and SmithKline Beecham are in talks.								
Taiwan	WeightedPr.**	8405.11	(c)	(c)	10116.80 26/8/97	6844.75 6/1/97	1.19	22.3
Receipt of annual bonus payments stimulated demand as trading resumed after the ten-day lunar new year holiday.								
Thailand	Bangkok SET	554.75	495.23	447.24	858.97 22/1/97	339.17 12/1/98	4.36	13.2
Aggressive foreign buying following last week's decision to unify the two-tier baht generated a record percentage gain.								
Turkey	IMKB Nat 100	3367.21	(c)	(c)	3711.40 5/1/98	895.00 2/1/97	1.46	23.9
Plunged more than 5 per cent on growing concerns about the possibility of military action against Iraq.								
Venezuela	IBC	7547.51	7332.81†	7108.94	10817.10 17/10/97	6061.99 12/3/97	na	na
Zimbabwe	ZSE Industrial	7978.11	7895.69	7807.38	12082.00 5/8/97	6801.51 18/12/97	na	na
Industrial stocks gained, buoyed by last week's conditional promise of financial aid from the IMF.								
WORLD	FT/S&P World(§)	(d)	259.83	260.82	268.47 7/10/97	216.61 14/4/97	na	na
	MS Capital IntS	978.4*	981.5	985.2	981.80 31/7/97	784.50 14/4/97	na	na
CROSS-BORDER	FTSE E300	1075.66	1054.84	1051.24	1075.66 2/2/98	874.08 28/10/97		
	FTSE E100	2489.86	2442.33	2424.49	2439.86 2/2/98	1582.59 2/1/97	na	na
	HSBC JC Drgn	(d)	(d)	214.77	434.83 6/8/97	189.25 12/1/98	na	na
	ING Brngs Emrg	(d)	136.55	134.71	195.61 9/7/97	125.19 12/1/98	na	na

** Sat Jan 31: Taiwan Weighted Price (b); Korea Comp Ex 587.38. §§ Montreal. ♦ Toronto. (c) Closed. (d) Unavailable. ‡ XETRA-DAX after-hours Index: Feb 2 - 4529.86 +87.35. † Correction. * Calculated at 15.00 GMT. ⊕ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Indl. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation. ⚘ Yields and P/E ratios are based on Datastream Total Market Indices. ⚘ Micsession.

NASDAQ NATIONAL MARKET

4 pm close February 2

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
ACC Corp		144	2008	49½	49¼	49¼	+¼
Acclaim E			1738	4¼	3⅞	4	-⅛
Acxiom Cp		30	2563	17⅞	17¼	17⅞	+⅝
Adaptec		13	33066	23½	22⅝	23⅞	+1⅞
ADCTel		25	72122	21¼	19¾	20¾	+1⅞
AdeccoADR	0.37	35	5	40¼	40	40	+1¼
AdobeS	0.20	17	12084	39½	35¼	39⅝	-⅛
Adv Polym			533	7	6⅞	6¾	
AdvTchLab		41	588	42½	41⅞	41½	
AdvantA	0.44	30	1234	31¼	29¾	30⅝	-⅛
AdvantB	0.53	19	2399	30½	29⅞	30¼	+⅞
AirExpr x	0.20	20	1653	28	26¾	27¾	+1⅞
Akzo ADR	1.70	17	384	93⅞	92½	93¼	+2⅝
AlaBsd	0.90	15	1627	28¼	28	28⅝	+¼
AlaCom	0.68	22	278	32	30¾	31¼	
Allen Org	0.56	14	106	41	38¾	38¾	-2¼
AllPharm§			789	7⅞	7⅛	7⅞	
Alcotta C		8	6	3	3	3	+⅛
Alta Gold		31	715	1⅞	1½	1⅞	+⅛
Altera§		21	38246	39⅞	34⅞	39⅞	+2⅞
[illegible]							

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Canon Inc x	0.54	28	132	121⅝	120⅞	121⅝	+2⅞
CarlisleCm	1.08	14	1321	36⅞	35	36	+⅞
Casey S x	0.12	24	1010	28⅝	27⅞	28	-⅛
Celgene			1094	9⅞	8¼	8⅞	-⅞
CEM §		18	70	11½	11¼	11⅞	-⅛
Centocor		244	22887	41	38¾	39⅞	-⅞
Cehl Spr			2988	20	19	19⅞	+⅛
Chandler			20	5⅞	5⅞	5⅞	
Chapter 1	1.00	24	1540	58⅝	57⅞	58⅝	+2
ChrmSh			4238	4⅞	4⅞	4¼	+⅞
ChckDvto			2898	⅞	⅞	⅞	+
Chiron Cp		110	6482	18⅞	18⅞	18⅞	+⅞
ChmFn	1.84	25	1339	131	127¼	129⅞	+2⅞
Cintas Cp	0.18	41	1809	42¼	41⅞	42⅞	+1⅞
CinFi	0.27	18	550	24⅞	21⅞	24¼	+2⅞
Circon		58	176	15¾	15⅞	15¾	
CirrusL§			10795	11¼	10⅞	11⅞	+⅞
CiscoSys		59	114007	65⅞	63½	65⅞	+⅞
Clstn Hlr			333	1⅞	1⅞	1⅞	
CocaColaB	1.00	31	66	57½	58	58⅞	+⅞
[illegible]							

[illegible]

AMEX PRICES

4 pm close February 2

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							
Frequency	0.20	19	237	16⅞	14⅞	14⅞	-1¼
Gaiam	0.80	11	222	23⅛	22¼	22⅞	-⅞
GalxyNG			403	25⅞	24⅞	24⅞	-1⅞
Giant FoA	0.73	38	975	34	32⅞	33⅞	-1
Glatfltr x	0.70	16	514	17⅞	17⅞	17⅞	+⅞
GoldfRes		10	2100	⅞	⅞	⅞	
HanOly			1076	3⅞	3⅞	3⅞	-⅞
Hasbro x	0.32	21	3640	35⅞	34⅞	34⅞	-⅛
Health Ch			20	⅞	⅞	⅞	
HrtkTch			5	17⅞	17⅞	17⅞	+⅞
Heico	0.07	30	167	29⅞	28½	28⅞	+⅞
HmeAll x		15	120	14⅞	14⅞	14⅞	-⅛
HovnanA			132	9⅞	8⅞	8⅞	-⅛
InstronCp	0.16	15	138	17⅞	15½	15½	-1½
Int. Comm			1290	3	2⅞	2⅞	-⅞
Intermagn		64	134	9¼	9⅞	9⅞	-⅞
Ivax			3654	8	7⅞	7⅞	+⅛
Jan Bell		14	402	2⅞	2⅞	2⅞	

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
JTS Corp			2768	⅞	¼	⅞	
Kinam Co		22	12	3	2⅞	2⅞	-⅛
KogerEqt§ x	1.00	22	310	22⅞	22⅞	22⅞	+⅛
Lafarge	0.08	17	120	4¼	4⅛	4⅞	
Lynch Co		20	79¼	79¼	79¼		
Maxxam		6	90	49¼	47⅞	49	+1¼
Media A	0.58	23	256	46⅞	45⅞	45⅞	+⅞
Merimedia			5564	12⅞	11⅞	11⅞	+⅛
Moog A§		20	473	34½	34	34	-⅞
NtPatntDev		9	101	13	12⅞	12⅞	-⅛
NY TmA	0.68	34	20	65⅞	65⅞	65⅞	+⅞
NVR		11	531	28	27⅞	28⅞	+3⅞
Pegasus G		2	20	⅞	⅞	⅞	+⅞
Pyrnt		4	129	8	7⅞	7⅞	-⅛
PMC	1.28	12	50	14⅞	14⅞	14⅞	-⅞
RegalBeloit			2100	36	36	36	-1

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
SJW Corp	2.24	12	8	58⅞	58¼	58⅞	+⅞
Tab Prods	0.20	14	133	11⅞	11⅞	11⅞	
TelData	0.42		1133	45⅞	44¼	45⅞	+1⅞
Thermedics		15	317	15⅞	15⅞	15½	+⅛
Thermolns		25	1278	30	29	30	-⅞
TownCtry		0	195	⅞	⅛	⅛	
Tubos Mex		7	1881	17	16½	16⅞	+⅛
UtdFoodsA			20	2⅞	2⅞	2⅞	
UtdFoodsB		30	4	2⅞	2⅞	2⅞	-⅛
US Cellul		22	852	29¼	28⅞	28¼	+⅞
ViacmA			1205	41⅞	41⅞	41¼	
ViacmB			6858	42⅞	41⅞	41⅞	-⅞
WRET	1.12	16	20	13⅞	13⅞	13⅞	-⅛
Xytronix			60	1⅞	1	1⅞	

EASDAQ

EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies with international operations

Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$2.25	-0.125	15090	8.125	2.25	Innogenetics	US$33.625	+0.125	192434	35.375	9.875
Algol	ITL13350		0	13350	12450	Integ. Surg. Syst.	DEM9.6	-0.2	0	12.1	6.9
Artwork Systems	US$8.75	-0.125	14450	11.125	5.875	Lernout & Hauspie	US$60.125	+2.375	38221	60.125	25
Chemunex	FFr11.5		17500	18	9	Memorex	US$10.5	+0.125	184110	10.6875	7.1875
City Bird Holding	US$8.0625	+0.0625	16135	8.25	6.0125	Mercer Intl	US$8.375		0	12.875	8
Debonair Holdings	GBP2.8	-0.05	5300	7.15	2.75	NTL	US$32	0	32	20.5	
Dr Solomon's	US$35.875	+3.75	1060	36.125	20.375	Opticis Intl	US$18.25		18708	19.75	10.375
EDAP TMS	US$6.5625		0	9.125	6.5	PixTech♣	US$3.675		9355	6.125	2.125
ESAT Telecom	US$17.625	+0.625	4030	18.5625	13.25	Schoeller-Bleckmann♣	Sch1313	-20	1145	1692	900
Espace Prod. Int	FFr91.26		1200	117	66.83	Topcall Intl♣	Sch6603	+155	2023	6680	3065
Esprit Telecom	US$11.625		0	12.25	4.875	Turbodyne Technol.♣	US$2.35		5000	6.25	2.55
Gruppo Formula	ITL16700	+50	350	22600	16400						

Prices for 2/2/98. Please note that mid prices are now used to calculate highs and lows. Information about EASDAQ can be found on the Web site at HTTP://WWW.EASDAQ.be EASDAQ offices are located in Brussels (Tel: 32-2 / 227 65 20) and in London (Tel: 44-171 / 489 9990)
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Merger talks give stocks a tonic

WORLD OVERVIEW

The combination of an Asian rally and the world's largest ever merger created an almost perfect climate for global stock markets yesterday, *writes Philip Coggan*.

The merger talks between Glaxo and SmithKline Beecham had been announced on Friday night and traders evidently decided over the weekend that more pharmaceutical deals were bound to follow. Drugs stocks rocketed in the UK, France, Germany and the US, with the first three chalking up all-time highs.

In early trading in New York, the Dow Jones Industrial Average regained the 8,000 level and the S & P 500 passed 1,000 for the first time.

In Asian trading, several markets bounced by more than 10 per cent as investors returned from the Chinese new year holiday in extremely bullish mood.

Geoffrey Dennis, global emerging equity market strategist at Deutsche Morgan Grenfell, said: "This is basically a catch-up from all the events of last week. Three events – the Indonesia debt moratorium, the Korean debt deal and the Thai government's abandonment of the two-tier exchange rate – signalled that Asia was getting on with the adjustment process. Furthermore, the US and many European markets raced ahead last week."

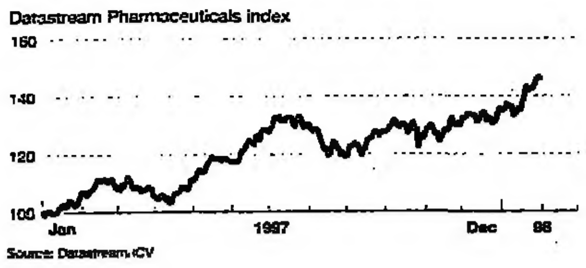
Mr Dennis felt that this bounce was not the beginning of a long bull market but would be followed by a period of sideways trading. "Asia still faces one, maybe two, years without growth and massive balance sheet damage," he added.

Stephen Lewis, chief economist at Monument Derivatives, also sounded a cautious note. "After an Asian trading session in which Indonesian and Hong Kong markets have soared but South Korean equities have been on the slide, it is hard to dispel the suspicion that it is the same limited stock of investment money that is washing from one centre to another in search of speculative gains.

"This rotational investment strategy is risky – the danger being that the footloose capital will be trapped in a market that is suddenly destabilised by disastrous fundamental news."

World pharmaceuticals

Datastream Pharmaceuticals index



Source: Datastream/ICV

Dow boosted by Asian confidence

AMERICAS

US stocks soared in morning trading after confidence returned to Asia and merger speculation ran through US markets, *writes John Labate in New York*.

The Dow Jones Industrial Average easily surged above the 8,000 level in early trading. By 12.30pm the blue chip index had managed to gain 162.92 or 2.1 per cent to 8,069.42.

Other indices made similar gains, as the Standard & Poor's 500 index returned to record territory with a midday rise of 18.87 to 999.15.

The Nasdaq composite index, which is weighted in technology shares, surged 31.51 higher at 1,650.87.

Although good for stocks, surging markets in Hong Kong, Singapore and Japan triggered a sell-off in US Treasuries. In spite of bullish economic releases on manufacturing activity, the benchmark long bond was down, $\frac{9}{32}$ to 103¾, sending the yield higher at 5.857 per cent.

The proposed merger of SmithKline Beecham and Glaxo Wellcome helped to send stocks higher as well.

"There's a feeling that the consolidation trend will accelerate, and that we're in the middle phase of consolidation in the drug industry, as well as technology," said Michael Metz, chief investment strategist at Oppenheimer.

ADR shares of Glaxo surged 17.4 per cent to 63\frac{1}{16}$ while SmithKline Beecham gained 9.3 per cent to 68\frac{11}{16}$.

US pharmaceutical producers were also bid higher on merger speculation. Schering-Plough surged $4¼ to $77¼, while Eli Lilly rose $3¼ to $70¾.

Among Dow shares, financials were among the strongest as Travelers Group rose $2 to $51½ and J.P. Morgan gained $3¾ to 104\frac{11}{16}$.

In the technology sector, computer producers surged as calm returned, for the time being at least, in Asian markets.

But shares of National Semiconductor tumbled more than 16 per cent or $4½ to $23¾ after the company issued a profits warning for its third quarter.

TORONTO was higher at midsession, with the TSE-300 composite index 84.80 higher at 6,784.80 in volume of 26.4m shares.

Inco, Canada's largest nickel producer, which rallied more than 7 per cent last week from year lows, added another 25 cents at C$26.30.

Drug companies look for the right chemistry

EUROPE

Merger euphoria drove the pharmaceuticals sector sharply higher across continental Europe in the wake of the planned fusion of Britain's Glaxo Wellcome and SmithKline Beecham.

In Germany, analysts said the planned tie-up would put further pressure on its big three chemicals and drugs groups to find partners.

Hoechst, widely seen as the most likely to seek a merger, rose DM5.25 to DM69.35 while Bayer jumped DM4.26 to DM73 and BASF was DM1.80 higher at DM63.60. Schering was another winner, climbing DM13.60 to DM202.76.

In Switzerland, Novartis firmed SFr61 to SFr2,591 and Roche certificates were marked up SFr390 to SFr15,730 amid speculation that the two would be forced to grow through acquisitions or mergers to remain competitive.

Roche also drew support from the expected approval by the EU of its own takeover of Germany's Boehringer-Mannheim.

France's Rhône-Poulenc gained more than 4 per cent before being pegged back by a J.P. Morgan downgrade. The shares ended at FFr282, up FFr2 on the day.

Sweden's Pharmacia & Upjohn hit a high of SKr338 before closing SKr22 up at SKr323.50 while Astra picked up SKr8.50 at SKr157.

The activity in the pharmaceuticals sector and sharp gains in Asia helped take **FRANKFURT** to an all-time high. By the close, the Xetra Dax index stood 87.35 or 2 per cent higher at 4,529.88.

PARIS came off towards the close on profit-taking, but still closed at an all-time high for the third successive session. The CAC 40 index gained 15.36 to 3,187

Banks were the main feature after Société Générale triggered a fresh wave of bid speculation by hinting it was looking at a purchase. The news sent SocGen shares better by FFr21 to FFr817.

Talk initially centred on the possibility of a merger with BNP, which rose more than 3 per cent in early trading. But the shares came off as BNP revealed details of its purchase of the Hong Kong and Chinese broking assets of bankrupt Asian investment bank, Peregrine. BNP closed at FFr324, up FFr7.40 on the day.

Other banks also posted strong gains. Natexis was FFr18.50 better at FFr342.50, while Credit Lyonnais gained FFr17.60 to FFr291.80.

Soaring stock markets in Asia and a Goldman Sachs upgrade helped LVMH. The shares finished at FFr1,144, up FFr23 on the day.

ZURICH took its lead from Asia and Wall Street and the SMI index extended its record setting run with a rise of 105.4 or 1.6 per cent to 6,688.0.

The banking sector put in a strong performance. UBS gained SFr66 to SFr2,167, on the view that Friday's statement about losses from derivatives trading had cleared the way for shareholders to approve the merger with SBC.

The derivatives rumour had spawned talk that the merger terms would be revised, but that was also denied.

SBC advanced SFr13 to SFr468, but CS Group lost SFr3 to SFr322.25 on switching into its two rivals.

MILAN, MADRID, LISBON and **DUBLIN** also ended at a record highs.

AMSTERDAM was carried along by the trend in neighbouring markets in the absence of much corporate news to spur activity, the AEX index ended 8.56 higher at 865.21.

Financials remained in demand. ING jumped Fl 2.10 to Fl 96.50 and ABN Amro was Fl 0.90 higher at Fl 42.40.

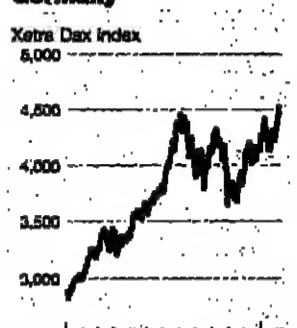
BRUSSELS motored higher, helped by banking sector bid talk following Friday's announcement of a bancassurance merger led by Kredietbank, up BFr300 to BFr17,400 as investors applauded the deal.

SGB gained BFr185 to BFr3,955 on rumours that it would sell its 29.7 per cent stake in Generale Bank to insurer Fortis, up BFr190 to BFr8,710. The Bel-20 index closed 34.4 better at 2,614.1.

Written and edited by Michael Morgan, Jonathan Ford, Peter Hall and Paul Gregan.

Germany

Xetra Dax index



Source: Datastream/ICV

FTSE Actuaries Share Indices — European series

February 2

National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Ecu)
FTSE Eurotop 300	1075 66	+1.99	+21.02	2.11	0.70	1084.70
FTSE Eurotop 100	2488 68	+1.91	+46.53	-	-	-
FTSE Eurotop 300 Regions						
300 UK	1100.27	+3.04	+32.50	2.93	1.35	1120.17
300 Ex-UK	1062.26	+1.38	+14.48	1.63	0.33	1065.29
300 Eurobloc	1039.42	+1.37	+14 03	1.85	0.50	1043.86
300 Ex-Eurobloc	1104.24	+2.42	+26 09	2.29	0 84	1116.73
FTSE Eurotop 300 Economic Groups						
Resources	934 74	-0.31	-2.87	2.96	0.50	948.27
General Industries	973.00	-1 65	-15 81	2.00	1.40	976.78
Consumer Goods	1126 30	+4 98	+53.41	1.64	0.13	1138.60
Services	1021 00	+0 48	+4.88	2.39	1.00	1029.97
Utilities	1154 41	+0.93	+10.61	2.51	1.84	1170.15
Financials	1167.82	+1.89	+21.62	2.00	0.14	1174.69

Base value 1000. More information on http://www.ftse.com. 'FTSE' and 'Footsie' are registered trade marks of the London Stock Exchange and The Financial Times. 'Eurotop' is a registered trade mark of the Amsterdam Stock Exchange. FTSE Eurotop indices are compiled by FTSE International. © FTSE International Limited 1998. All rights reserved

Hong Kong roars ahead as Asia toasts Year of the Tiger

ASIA PACIFIC

Asian markets rocketed higher on their first trading session of the Year of the Tiger.

HONG KONG, closed since its half-day session last Tuesday, was the region's best-performing market, but some analysts cautioned that the rise was overdone.

The Hang Seng index surged 1,326.24 to 10,578.60, its best one-day performance since October 29 last year, when the index posted a rise of 1,705.41 or 18.8 per cent.

China plays also flexed their muscles. The China-Affiliated Corporations index jumped 21.4 per cent while the H-share index surged 18.2 per cent.

Turnover finished at HK$20.9bn – its highest level since last November – compared with a quiet HK$4bn during last Tuesday's half-day trading and last Monday's HK$9bn.

The properties sector posted the largest gains, adding nearly 23 per cent. Cheung Kong firmed HK$9.50 to HK$49 and Sun Hung Kai Properties closed HK$10 higher at HK$50.50.

JAKARTA saw the composite index close above 500 for the first time since November 3 as international investors leapt into the market at the end of the Ramadan holiday break. The index ended at 554.107, up 88.169 on the day.

Foreign brokers dominated activity, but local investors were also said to be picking up stock, encouraged by last week's financial reforms and moves to tackle Indonesia's ominous short-term private sector debt overhang.

SINGAPORE was propelled higher by heavy short-covering and fresh buying of banks and property counters. Volume rocketed to 753.1m shares, the highest since the regional stock market bull run in 1993.

The Straits Times Industrials index ended at its day's high of 1,432.99, up 173.07.

BANGKOK saw foreign funds targeting the market on hopes that the currency would strengthen after the central bank lifted restrictions on baht trading last Friday.

The SET index closed up 59.52 at 554.75, its highest level since September 26.

Brokers said that the lifting of the restrictions had improved sentiment, encouraging investors to buy large capitalised bank, energy and communications stocks.

MANILA was also back to levels not seen since the beginning of September as the market bounced strongly on foreign buying.

The composite index gained 197.69 to 2145.7, its highest closing level since September 11.

Buying was across the board with focus on telecoms utility PDLT, which closed 65 pesos higher at 1,110 pesos.

Brewing giant San Miguel gained in spite of news that Hong Kong-based investment company First Pacific had abandoned plans to buy a 47 per cent stake. The B shares gained 6.50 pesos to 58.50 pesos.

TOKYO was listless, compared with other Asian markets, *writes Paul Abrahams*.

Suggestions by a leading member of the ruling Liberal Democratic party that the government could add Y6,000bn in tax cuts or additional spending to the budget had a limited impact. Many investors are expecting an eventual total of between Y10,000bn and Y15,000bn.

The Nikkei 225 index rose 148.35 to close at 16,775.82. Trading was volatile, with the index reaching as high as 16,908.69 and as low as 16,640.76.

The Topix index of all first section shares fell 5.42 to 1,262.09. Turnover was low, falling from 743m shares on Friday to just 458m. The momentum was down: 764 stocks fell, 440 were up and 97 unchanged.

The oil sector and paper and pulp sector were among the biggest fallers, down 2.5 per cent and 1.5 per cent respectively. Mitsubishi Oil fell nearly 7 per cent to Y215 after last Friday's profits warning.

Among the paper companies, Oji, Japan's biggest producer, was down Y18 or 3.1 per cent at Y562. Japan Paperboard fell Y14 or 6.5 per cent to Y201.

Transport stocks were also fallers, down 0.4 per cent, after worse-than-expected domestic vehicle sales in January. These dropped 23 per cent year on year with Honda's sales down 39 per cent and Toyota's down 24 per cent.

Fuji Photo Film rose Y170 to Y5490 after the WTO panel formally ruled that Kodak had no case against the company.

In Osaka, the OSE index closed down 86 points at 16,677.

Hong Kong

THE DAY'S CHANGES

	% Change
Hong Kong	+14.3
Jakarta	+14.0
Singapore	+13.7
Bangkok	+12.0
Manila	+10.2
Bombay	+4.1
Taipei	+4.0
Karachi	+3.8
Kuala Lumpur	+2.0
Tokyo	+0.9
Seoul	-4.2

Peso flood helps Chile

An expected inflow of pesos this week, and the overnight rebound in Asian markets, *sent* **SANTIAGO** *3.4 per cent* higher by midsession. The IPSA index was 3.05 higher at 92.28.

Traders said the inflow of pesos was likely to bring down interest rates, which soared last week on a lack of liquidity.

SAO PAULO rose 2.4 per cent around midsession, pulled along by the upbeat global mood. The Bovespa index was 231 higher at 9,951 in a rally led by benchmark Telebras preferred which *traded 3 per cent higher to* R$126.70.

BUENOS AIRES put in a strong morning performance which took the Merval index 15.32 or 2.5 per cent higher by midsession to 627.70.

MEXICO CITY moved ahead in early trade and by midsession, the IPC index was 41.74 higher at 4,611.10. Telmex picked up 25 centavos at 21.20 pesos.

S Africa moves higher

Broadly based buying of blue chips sent Johannesburg higher. The overall index climbed 94.4 to 6,644.7, industrials rose 112.0 to 7,781.6 and golds picked up 6.1 at 887.2.

Market benchmark De Beers jumped 5 per cent to R112.80.

However, Gold Fields, the *world's second largest gold* company, made a disappointing debut, ending at R33, down from an early R34.70.

EMERGING MARKET FOCUS

Seoul rally may be false dawn

The Seoul market could claim the title of this year's Cinderella bourse, transformed from one of the worst performers in 1997 to the best in the past month.

But yesterday's 4.2 per cent plunge in the composite index to 543.68 underscores that the recent rally might prove to be only temporary.

The rapid climb from 351 at the beginning of the year reflected relief as Korea managed to avoid a default on its foreign debt after the International Monetary Fund agreed to speed bail-out funds as part of a $58.5bn rescue.

Promises by Kim Dae-jung, the president-elect, to open capital markets and introduce reforms on labour market flexibility and corporate restructuring persuaded foreign investors Korea might be finally tackling the faults of its dirigiste economy.

As the currency and interest rates stabilised, foreign *investors quickly snapped* up cheap assets by buying large shareholdings in such companies as Samsung Electronics and Housing & Commercial Bank. Domestic institutional investors followed the lead of overseas investors as they scambled to make short-term gains.

But many analysts now believe the market has reached the point where it is defying gravity. Share prices are no longer as cheap as they were a month ago and the market appears set for profit-taking since some of the biggest foreign investors have been hedge funds.

"We are seeing the last stages of the rally as regional funds begin buying in a herd instinct. But this is providing an opportunity for domestic institutional investors to sell," said Adrian Cowell with Dresdner Kleinwort Benson in Seoul.

The recent euphoria over Korea's success in rescheduling its foreign debt with international banks is expected to be overshadowed soon by the problems of the highly leveraged industrial *groups in servicing their* large domestic debts.

A severe credit crunch is expected to continue as Korea's troubled banks curb lending, which is likely to trigger more big corporate bankruptcies. "Another major bankruptcy will send foreign investors running for the hills," said Richard Samuelson, branch manager for SBC Warburg Dillon Read in Seoul.

"The market should consolidate as the reality of restructuring begins to bite," *said Lee Keunmo*, research head at ING Barings, Seoul.

Most conglomerates, or *chaebol*, with the possible exception of the top five, are considered vulnerable to financial troubles unless they quickly restructure by selling assets to foreign investors. Doubts about successful corporate restructuring will persist until the government gains parliamentary approval for flexible labour policies in the face of stiff union opposition.

Foreign investors also expect new laws that will promote transparent corporate accounts and the introduction of profit-oriented *chaebol* management.

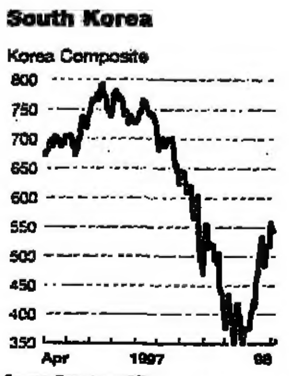
Adding to industry's woes will be a sharp slowdown in domestic demand as Korea enters a severe recession under high interest rates imposed by the IMF. Import bottlenecks resulting from a weak currency could cut short an expected boom in exports.

"Korea's financial problems have only just started, not ended, with foreign debt rescheduling talks. The market *will be volatile this year* and only tempt the brave or crazy," said Mr Samuelson.

John Burton

South Korea

Korea Composite



Source: Datastream/ICV